

ORIGINAL



0000136394

BEFORE THE ARIZONA CORPORATION COMMISSION

**COMMISSIONERS**

GARY PIERCE - Chairman  
BOB STUMP  
SANDRA D. KENNEDY  
PAUL NEWMAN  
BRENDA BURNS

Arizona Corporation Commission

**DOCKETED**

MAY 07 2012

DOCKETED BY

DM

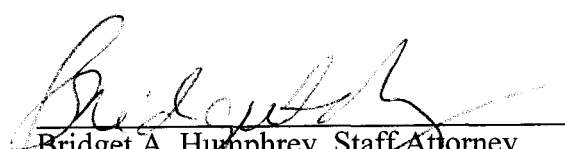
IN THE MATTER OF THE APPLICATION OF  
ARIZONA WATER COMPANY, AN  
ARIZONA CORPORATION, FOR A  
DETERMINATION OF THE FAIR VALUE OF  
ITS UTILITY PLANT AND PROPERTY AND  
FOR ADJUSTMENTS TO ITS RATES AND  
CHARGES FOR UTILITY SERVICE  
FURNISHED BY ITS EASTERN GROUP AND  
FOR CERTAIN RELATED APPROVALS.

DOCKET NO. W-01445A-11-0310

**STAFF'S NOTICE OF FILING  
SURREBUTTAL TESTIMONY**

The Utilities Division ("Staff") of the Arizona Corporation Commission ("Commission") hereby files the Surrebuttal Testimony of Staff witnesses John A. Cassidy, Katrin Stukov, Jeffrey M. Michlik and D. Bentley Erdwurm in the above-referenced matter.

RESPECTFULLY SUBMITTED this 7<sup>th</sup> day of May, 2012.

  
Bridget A. Humphrey, Staff Attorney  
Wesley C. Van Cleve, Staff Attorney  
Legal Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007  
(602) 542-3402

Original and thirteen (13) copies  
of the foregoing were filed this  
7<sup>th</sup> day of May, 2012 with:

Docket Control  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

DOCKET CONTROL  
AZ CORP COMMISSION

2012 MAY -1 P 3:27

RECEIVED

1 Copies of the foregoing were mailed  
2 this 7<sup>th</sup> day of May, 2012 to:

3 Steven A. Hirsch  
4 Stanley B. Lutz  
5 BRYAN CAVE, LLP  
6 Two North Central Avenue, Suite 2200  
7 Phoenix, Arizona 85004-4406  
8 Attorneys for Arizona Water Company

9 Robert Geake  
10 Vice President and General Counsel  
11 ARIZONA WATER COMPANY  
12 P.O. Box 29006  
13 Phoenix, Arizona 85038

14 Daniel W. Pozefsky  
15 Chief Counsel  
16 RESIDENTIAL UTILITY CONSUMER OFFICE  
17 1110 West Washington Street, Suite 220  
18 Phoenix, Arizona 85007

19 Kathie Wyatt  
20 1940 N. Monterey Dr.  
21 Apache Junction, Arizona 85120

22   
23  
24  
25  
26  
27  
28

**BEFORE THE ARIZONA CORPORATION COMMISSION**

GARY PIERCE

Chairman

BOB STUMP

Commissioner

SANDRA D. KENNEDY

Commissioner

PAUL NEWMAN

Commissioner

BRENDA BURNS

Commissioner

IN THE MATTER OF THE APPLICATION OF	)	DOCKET NO. W-01445A-11-0310
ARIZONA WATER COMPANY, AN	)	
ARIZONA CORPORATION, FOR A	)	
DETERMINATION OF THE CURRENT FAIR	)	
VALUE OF ITS UTILITY PLANT AND	)	
PROPERTY AND FOR ADJUSTMENTS TO ITS	)	
RATES AND CHARGES FOR UTILITY	)	
SERVICE FURNISHED BY ITS EASTERN	)	
GROUP AND FOR CERTAIN RELATED	)	
<u>APPROVALS.</u>	)	

SURREBUTTAL

TESTIMONY

OF

JOHN A. CASSIDY

PUBLIC UTILITIES CONSULANT

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

MAY 7, 2012

## TABLE OF CONTENTS

	<u>PAGE</u>
I. INTRODUCTION .....	1
II. COST OF EQUITY AND OVERALL RATE OF RETURN .....	2
III. STAFF RESPONSE TO THE REBUTTAL TESTIMONY OF THE COMPANY'S COST OF CAPITAL WITNESSES .....	3
Ms. Ahern's Rebuttal.....	3
Dr. Zepp's Rebuttal .....	6
IV. STAFF RECOMMENDATIONS.....	9



## **SCHEDULES**

Capital Structure and Weighted Cost of Capital.....	JAC-1
Intentionally Left Blank.....	JAC-2
Final Cost of Equity Estimates for Sample Water Utilities.....	JAC -3
Average Capital Structure of Sample Water Utilities.....	JAC -4
Growth in Earnings & Dividends of Sample Water Utilities .....	JAC -5
Sustainable Growth for Sample Water Utilities.....	JAC -6
Selected Financial Data of Sample Water Utilities.....	JAC -7
Calculation of Expected Infinite Annual Growth in Dividends.....	JAC -8
Multi-Stage DCF Estimates .....	JAC -9

**EXECUTIVE SUMMARY  
ARIZONA WATER COMPANY  
EASTERN GROUP  
DOCKET NO. W-01445A-11-0310**

The Surrebuttal testimony of Staff witness John A. Cassidy addresses the following issues:

Capital Structure – Staff continues to recommend that the Commission adopt a capital structure for Arizona Water Company (“Company”) for this proceeding consisting of 49.0 percent debt and 51.0 percent equity.

Cost of Equity – Staff recommends that the Commission adopt a 9.4 percent return on equity (“ROE”) for the Company. Staff’s estimated ROE for the Company is based on the average of its DCF and CAPM cost of equity methodology estimates for the sample companies ranging from 9.0 percent for the discounted cash flow method (“DCF”) to 9.7 percent for the capital asset pricing model (“CAPM”).

Overall Rate of Return – Staff recommends that the Commission adopt an 8.1 percent overall rate of return.

Dr. Zepp’s Testimony – The Commission should reject the Company’s proposed 12.50 percent ROE for the following reasons:

Dr. Zepp’s primary and secondary DCF models use average stock prices to calculate the current dividend yield, his primary DCF estimates rely exclusively on analysts’ forecasts for earnings per share growth, his secondary DCF estimates fail to consider historical dividend per share growth and are based, in part, on historical average share price appreciation. Dr. Zepp’s CAPM and risk premium estimates utilize a forecasted risk-free rate.

Ms. Ahern’s Rebuttal Testimony – The Commission should reject the Company’s proposed 12.50 percent ROE for the following reasons:

Ms. Ahern’s testimony contravenes the metrics used by Dr. Zepp and implies that his estimate of the Company’s cost of equity is overstated by 159 basis points.

1     **I.     INTRODUCTION**

2     **Q.     Please state your name, occupation, and business address.**

3     A.     My name is John A. Cassidy. I am a Public Utilities Consultant employed by the Arizona  
4            Corporation Commission ("Commission") in the Utilities Division ("Staff"). My business  
5            address is 1200 West Washington Street, Phoenix, Arizona 85007.

6  
7     **Q.     Are you the same John A. Cassidy who filed Direct Testimony in this case?**

8     A.     Yes, I am.

9  
10    **Q.     What is the purpose of your Surrebuttal Testimony in this rate proceeding?**

11    A.     The purpose of my Surrebuttal Testimony is to report on Staff's updated cost of capital  
12            analysis with its recommendations regarding Arizona Water Company's ("Arizona Water"  
13            or "Company") cost of capital, and to respond to the cost of capital Rebuttal Testimony of  
14            Company witnesses Dr. Thomas M. Zepp ("Dr. Zepp's Rebuttal") and Ms. Pauline M.  
15            Ahern (Ms. Ahern's Rebuttal").

16  
17    **Q.     Please explain how Staff's Surrebuttal Testimony is organized.**

18    A.     Staff's Surrebuttal Testimony is presented in four sections. Section I is this introduction.  
19            Section II discusses Staff's updated cost of capital analysis. Section III presents Staff's  
20            comments on the Rebuttal testimony of the Company's two cost of capital witnesses;  
21            beginning with Ms. Ahern's Rebuttal, followed by Dr. Zepp's Rebuttal. Lastly, Section  
22            IV presents Staff's recommendations.

**II. COST OF EQUITY AND OVERALL RATE OF RETURN**

**Q. Has Staff updated its analysis concerning the Company's cost of equity ("COE") since filing Direct Testimony in this proceeding?**

A. Yes. Staff updated its analysis to include the most recent market data available.

**Q. What is Staff's updated COE?**

A. Staff's updated COE is 9.4 percent. In Staff's Direct Testimony, the COE had been 9.1 percent.

**Q. What COE is Staff recommending for Arizona Water?**

A. Staff is recommending a COE of 9.4 percent derived from its updated cost of equity estimates that range of 9.00 percent for the discounted cash flow ("DCF") method and 9.7 percent for the capital asset pricing model ("CAPM") estimation methodologies.

**Q. Did Staff update its analysis concerning the Applicant's overall rate of return?**

A. Yes, the updated analysis is supported by Surrebuttal Schedules JAC-1 to JAC-9.

**Q. What is Staff's updated overall rate of return?**

A. Staff's updated overall rate of return is 8.1 percent, an increase from 7.9 percent in direct testimony.

**Q. What overall rate of return is Staff recommending for Arizona Water?**

A. Staff recommends an 8.1 percent overall rate of return. Staff's recommendation is based on a COE of 9.4 percent, a cost of debt of 6.8 percent and a capital structure consisting of 51.0 percent equity and 49.0 percent debt, as shown in Surrebuttal Schedule JAC-1.

**III. STAFF RESPONSE TO THE REBUTTAL TESTIMONY OF THE COMPANY'S  
COST OF CAPITAL WITNESSES**

**Ms. Ahern's Rebuttal**

**Q. In her Rebuttal Testimony, does Ms. Ahern present a cost of equity calculation utilizing a risk premium model?**

A. Yes. For each water utility included in Staff's proxy group of companies, Ms. Ahern calculates the cost of equity utilizing the Predictive Risk Premium Model ("PRPM"). The results of Ms. Ahern's PRPM risk premium analysis are presented in Exhibit PMA-11.

**Q. What is Ms. Ahern's stated purpose for making such a cost of equity calculation?**

A. Ms. Ahern's stated purpose is to demonstrate the inadequacy of both Staff's recommended 9.1 percent ROE, and RUCO's recommended 9.3 percent ROE for the Company (see Ahern.Rebuttal, p. 33, lines 1-2).

**Q. Does Ms. Ahern consider Dr. Zepp's recommended 12.5 percent cost of equity for Arizona Water to be reasonable?**

A. Yes. In the narrative of her testimony, Ms. Ahern characterizes Dr. Zepp's recommended 12.5 percent ROE as being "reasonable, if not conservative" (see Ahern Rebuttal, p.30, lines 23-24).

**Q. What risk-free rate does Ms. Ahern use in her PRPM risk premium model?**

A. For purposes of her PRPM risk-premium analysis, Ms. Ahern uses a forecasted risk-free rate of 3.58 percent, based on forecasts of the 30-year long-term U.S. Treasury yield (see Ahern Rebuttal, p. 32, lines 12-15, and Exhibit PMA-11, Pages 1-2).

1 **Q. Does Ms. Ahern use the same risk-free rate in her PRPM risk premium model as**  
2 **that used by Dr. Zepp in each of his two CAPM and risk premium models?**

3 A. No. In each of his two CAPM and risk premium models, Dr. Zepp uses a 3-year (2012-  
4 2014) forward-looking forecasted risk-free rate of 5.17 percent, based on forecasts of the  
5 30-year long-term U.S. Treasury yield (see Zepp Direct, Tables TMZ 10, TMZ 11, TMZ  
6 12, TMZ 15 and TMZ 16).

7  
8 **Q. What is the magnitude of difference between the risk-free rate employed by Dr. Zepp**  
9 **in his two risk premium models, and that used by Ms. Ahern in her PRPM risk**  
10 **premium model?**

11 A. In absolute terms, Dr. Zepp's 5.17 percent risk-free rate exceeds Ms. Ahern's 3.58 percent  
12 risk-free rate by 159 basis points ( $517 - 358 = 159$ ). However, in relative terms the risk-free  
13 rate used by Dr. Zepp is fully 44.4 percent greater than that of Ms. Ahern [ $(5.17 \text{ percent} -$   
14  $3.58 \text{ percent}) / 3.58 \text{ percent}$ ].

15  
16 **Q. Given the magnitude of difference between the risk-free rates used by the**  
17 **Company's two cost of capital witnesses, what comments does Staff have regarding**  
18 **Ms. Ahern's finding Dr. Zepp's 12.5 percent recommended ROE to be "reasonable,**  
19 **if not conservative?"**

20 A. Within the bounds of reason, such a finding has no support. In both risk premium models  
21 presented by Dr. Zepp in Direct, and the PRPM risk premium model presented by Ms.  
22 Ahern in Rebuttal, the estimated cost of equity is determined by adding a risk-free rate to a  
23 risk premium value. Thus, for every basis point increase to the risk-free rate, there is a  
24 corresponding one basis point increase to the estimated cost of equity. As noted, Dr.  
25 Zepp's risk-free rate (5.17 percent) exceeded that of Ms. Ahern (3.58 percent) by 159  
26 basis points. In light of this fact, rather than serving to affirm the reasonableness of Dr.

1 Zepp's recommended cost of equity, at a bare minimum Ms. Ahern's Rebuttal Testimony  
2 implies that Dr. Zepp has overstated the Company's cost of equity by 159 basis points, as  
3 the metrics she uses in her analysis contravene those used by Dr. Zepp by that magnitude.  
4

5 **Q. Does Staff consider Ms. Ahern's use of a forecasted risk-free rate in her PRPM risk**  
6 **premium model to be appropriate?**

7 A. No. For reasons noted in Staff's Direct Testimony, the use of a forecasted risk-free rate  
8 only serves to overstate the estimated cost of equity (see Cassidy Direct, p. 41, lines 13-  
9 15, and p. 42, lines 16-22). The appropriate risk-free rate to be used is the current yield on  
10 intermediate- or long-term U.S. Treasury securities.  
11

12 **Q. In using a forecasted risk-free rate in her PRPM risk premium model, by how much**  
13 **does Ms. Ahern overstate the cost of equity?**

14 A. Although interest rates have risen slightly since the filing of Staff's Direct Testimony, the  
15 current yield on the 30-year long-term U.S. Treasury bond is 3.15 percent. Thus, in using  
16 a forecasted risk-free rate of 3.58 percent in her PRPM risk premium model, Ms. Ahern  
17 overstates the cost of equity by an additional 43 basis points ( $358 - 315 = 43$ ).  
18

19 **Q. Staff previously asserted that Dr. Zepp's use of a forecasted risk-free rate in his risk**  
20 **premium models served to overstate the cost of equity by 216 basis points (see**  
21 **Cassidy Direct, p. 42, lines 19-22). In light of Ms. Ahern's Rebuttal, and given the**  
22 **slight increase in the 30-year Treasury yield since the filing of its Direct Testimony,**  
23 **what is Staff's current estimate of Dr. Zepp's overstatement to his risk premium**  
24 **derived cost of equity?**

25 A. At present, Dr. Zepp's risk premium models overstate the cost of equity by 202 basis  
26 points. This can be determined in one of two ways; first, by taking the difference between

1 Dr. Zepp's forecasted risk-free rate and the current 30-year long-term Treasury yield (5.17  
2 percent - 3.15 percent = 2.02 percent), or simply by taking the sum of the two basis point  
3 overstatements discussed above ( $159 + 43 = 202$ ).

4  
5 **Q. What does Staff conclude regarding Ms. Ahern's stated purpose – to demonstrate the**  
6 **inadequacy of both Staff's and RUCO recommended ROEs - for presenting her**  
7 **PRPM cost of equity estimates in Rebuttal?**

8 A. However unintended, Ms. Ahern's cost of capital Rebuttal testimony tends to support the  
9 Staff and RUCO ROE recommendations by contradicting the metrics used by Dr. Zepp  
10 and suggesting that he has significantly overstated Arizona Water's cost of equity.

11  
12 **Dr. Zepp's Rebuttal**

13 **Q. How does Staff respond to Dr. Zepp's criticism that when deriving estimates for the**  
14 **cost of equity from its constant growth DCF model, too little weight is placed on**  
15 **analysts' forecasts of EPS growth.**

16 A. Staff's constant growth DCF model is a balanced one, incorporating estimates of historical  
17 and projected growth in DPS, EPS and sustainable growth in equal measure for purposes  
18 of estimating the market cost of equity. Staff considers its methodology to be appropriate,  
19 as investors look at both historical and projected measures of growth along each of these  
20 growth parameters when making investment decisions. For the reasons noted in its Direct  
21 Testimony, Staff considers it inappropriate to rely exclusively on analysts' forecasts of  
22 EPS growth when determining the dividend growth (g) component of a constant growth  
23 DCF model (see Cassidy Direct, pp. 35-37).



1     **Q.     What comments does Staff have regarding Dr. Zepp's criticism that it should obtain**  
2     **forecasts of growth from sources other than Value Line?**

3     A.     For purposes of its cost of equity analysis, Staff has relied on Value Line as a source for  
4     its growth estimates for many years. Among investors, the Value Line Investment Survey  
5     is well respected, and perhaps more than any other single investment publication of its  
6     kind is readily accessible in the reference section of public libraries all across the country.  
7     As a source of forecasted growth, the Value Line Investment Survey provides a uniform 5-  
8     year projection for both DPS and EPS for each company it follows, thereby ensuring  
9     uniformity in the time horizon over which projections are made for each of Staff's sample  
10    water utility companies. (Note: Because one of Staff's sample companies is covered by  
11    the Value Line Small Cap Investment Survey, no DPS and EPS projections are available  
12    for Connecticut Water).

13  
14    **Q.     How does Staff respond to Dr. Zepp's concerns regarding the exclusion of American**  
15    **Water Works ("AWK") from its sample group of companies?**

16    A.     For purposes of its constant growth DCF analysis, Staff measures historical growth in  
17    EPS, DPS and sustainable growth over a ten-year period. Accordingly, one criterion  
18    necessary for inclusion in Staff's sample group of companies is that a company be  
19    publicly traded for a period sufficiently long to facilitate the calculation of a 10-year  
20    growth rate for each of those growth parameters. American Water Works was formerly  
21    owned by RWE, and was not spun off as an independent publicly traded entity by its  
22    parent until mid-2008. As such, there are less than four years of market data available by  
23    which growth might be measured to estimate the cost of equity, and it is for this reason  
24    that Staff excluded AWK from its sample group of companies.

1 **Q. If Staff were to include American Water Works in its sample group of companies at**  
2 **this time, what is the longest historical growth rate obtainable for the company?**

3 A. At present, historical market data is available for the calculation of only a two-year growth  
4 rate. American Water Works completed its first full year of operations in 2009, and using  
5 its financial performance numbers for that year as a base against which DPS, EPS and  
6 sustainable growth might be measured going forward, a 2-year growth rate can be  
7 calculated covering the period, 2009-2011.  
8

9 **Q. Does Dr. Zepp incorporate historical measures of growth for American Water**  
10 **Works into his secondary DCF analysis when estimating the cost of equity?**

11 A. No. For each of his sample companies, the historical growth rates used by Dr. Zepp in his  
12 secondary DCF analysis are presented in TMZ Table 3. However, a review of TMZ Table  
13 3 displays no historical growth rates for American Water Works; instead, the letters "nmf"  
14 (i.e., no meaningful figure) appear. The reason for this is due to the lack of sufficient  
15 historical data being available for the company.  
16

17 **Q. What does Staff conclude regarding Dr. Zepp inclusion of American Water Works in**  
18 **his sample group of companies?**

19 A. An important standard to be met when selecting a sample company for purposes of  
20 estimating the cost of equity is that it allow for both historically and prospective  
21 meaningful growth measures. Given its short life, AWK is a company that clearly falls  
22 short of this standard. Ultimately, Dr. Zepp must choose sample companies that satisfy  
23 his criteria and models.

1    **IV.    STAFF RECOMMENDATIONS**

2    **Q.    What are Staff's recommendations for Arizona Water's cost of capital?**

3    **A.    Staff makes the following recommendations for Arizona Water's cost of capital:**

4        1. Staff recommends a capital structure of 49.0 percent debt and 51.0 percent equity.

5        2. Staff recommends a cost of debt of 6.8 percent.

6        3. Staff recommends a cost of equity of 9.4 percent.

7        4. Staff recommends an overall rate of return of 8.1 percent.

8  
9    **Q.    Does Staff's silence on any particular issue raised by the Company in its Rebuttal**  
10   **testimony indicate that Staff agrees with the stated Rebuttal position?**

11   **A.    No.**

12  
13   **Q.    Does this conclude your direct testimony?**

14   **A.    Yes, it does.**

**Arizona Water Company Cost of Capital Calculation**  
**Capital Structure**  
**And Weighted Average Cost of Capital**  
**Staff Recommended and Company Proposed**

[A]	[B]	[C]	[D]
<u>Description</u>	<u>Weight (%)</u>	<u>Cost</u>	<u>Weighted Cost</u>
Staff Recommended Structure			
Debt	49.0%	6.8%	3.3%
Common Equity	51.0%	9.4%	4.8%
Weighted Average Cost of Capital			<u>8.1%</u>
Company Proposed Structure			
Debt	49.0%	6.8%	3.3%
Common Equity	51.0%	12.5%	<u>6.4%</u>
Weighted Average Cost of Capital			<u>9.7%</u>

[D] : [B] x [C]  
 Supporting Schedules: JAC-3 and JAC-4.

Intentionally left blank



Arizona Water Company Cost of Capital Calculation  
Average Capital Structure of Sample Water Utilities

[A]	[B]	[C]	[D]
<u>Company</u>	<u>Debt</u>	<u>Common Equity</u>	<u>Total</u>
American States Water	46.0%	54.0%	100.0%
California Water	53.3%	46.7%	100.0%
Aqua America	53.9%	46.1%	100.0%
Connecticut Water	57.1%	42.9%	100.0%
Middlesex Water	43.3%	56.7%	100.0%
SJW Corp	<u>55.7%</u>	<u>44.3%</u>	<u>100.0%</u>
Average Sample Water Utilities	<b>51.6%</b>	<b>48.4%</b>	<b>100.0%</b>
AWC - Actual Capital Structure	<b>49.0%</b>	<b>51.0%</b>	<b>100.0%</b>

Source:

Sample Water Companies from Value Line

Arizona Water Company Cost of Capital Calculation  
Growth in Earnings and Dividends  
Sample Water Utilities

[A]	[B]	[C]	[D]	[E]
Company	Dividends Per Share 2002 to 2011 <u>DPS<sup>1</sup></u>	Dividends Per Share Projected <u>DPS<sup>1</sup></u>	Earnings Per Share 2002 to 2011 <u>EPS<sup>1,2</sup></u>	Earnings Per Share Projected <u>EPS<sup>1</sup></u>
American States Water	2.4%	4.0%	5.1%	4.7%
California Water	1.0%	3.9%	6.2%	8.6%
Aqua America	7.7%	4.6%	7.3%	6.3%
Connecticut Water	1.6%	No Projection	0.4%	No Projection
Middlesex Water	1.6%		2.4%	
SJW Corp	<u>4.8%</u>		<u>3.7%</u>	<u>4.8%</u>
Average Sample Water Utilities	3.2%	3.8%	4.2%	6.5%

<sup>1</sup> Value Line

<sup>2</sup> Negative values are inconsistent with the DCF, accordingly, they are excluded from the average.



Arizona Water Company Cost of Capital Calculation  
Sustainable Growth  
Sample Water Utilities

[A]	[B]	[C]	[D]	[E]	[F]
Company	Retention Growth 2002 to 2011 <u>br</u>	Retention Growth Projected <u>br</u>	Stock Financing Growth <u>vs</u>	Sustainable Growth 2002 to 2011 <u>br + vs</u>	Sustainable Growth Projected <u>br + vs</u>
American States Water	3.4%	6.2%	1.8%	5.2%	8.0%
California Water	2.2%	4.5%	2.1%	4.3%	6.6%
Aqua America	4.5%	5.6%	2.1%	6.6%	7.7%
Connecticut Water	2.2%	No Projection	1.0%	3.1%	No Projection
Middlesex Water	1.3%	4.0%	3.5%	4.8%	7.5%
SJW Corp	3.7%	2.9%	0.1%	3.8%	3.0%
Average Sample Water Utilities	2.9%	4.7%	1.8%	4.6%	6.6%

[B]: Value Line

[C]: Value Line

[D]: Value Line and MSN Money

[E]: [B]+[D]

[F]: [C]+[D]

Arizona Water Company Cost of Capital Calculation  
Selected Financial Data of Sample Water Utilities

[A]	[B]	[C]	[D]	[E]	[F]	[G]
Company	Symbol	Spot Price 4/25/2012	Book Value	Mkt To Book	Value Line Beta $\beta$	Raw Beta $\beta_{raw}$
American States Water	AWR	36.34	21.57	1.7	0.70	0.52
California Water	CWT	17.97	11.07	1.6	0.65	0.45
Aqua America	WTR	22.37	9.17	2.4	0.65	0.45
Connecticut Water	CTWS	28.38	13.42	2.1	0.75	0.60
Middlesex Water	MSEX	18.39	11.62	1.6	0.70	0.52
SJW Corp	SJW	23.58	14.93	1.6	0.85	0.75
Average				1.8	0.72	0.55

[C]: Msn Money

[D]: Value Line

[E]: [C] / [D]

[F]: Value Line

[G]:  $(-0.35 + [F]) / 0.67$

Arizona Water Company Cost of Capital Calculation  
Calculation of Expected Infinite Annual Growth in Dividends  
Sample Water Utilities

[A]	[B]
<u>Description</u>	<u>g</u>
DPS Growth - Historical <sup>1</sup>	3.2%
DPS Growth - Projected <sup>1</sup>	3.8%
EPS Growth - Historical <sup>1</sup>	4.2%
EPS Growth - Projected <sup>1</sup>	6.5%
Sustainable Growth - Historical <sup>2</sup>	4.6%
<u>Sustainable Growth - Projected<sup>2</sup></u>	<u>6.6%</u>
Average	<b>4.8%</b>

1 Schedule JAC-5

2 Schedule JAC-8

Arizona Water Company Cost of Capital Calculation  
Multi-Stage DCF Estimates  
Sample Water Utilities

[A]	[B]	[C]	[D]	[E]	[F]	[H]	[I]
Company	Current Mkt. Price ( $P_0$ ) <sup>1</sup> 4/25/2012	Projected Dividends <sup>2</sup> (Stage 1 growth) ( $D_t$ )				Stage 2 growth <sup>3</sup> ( $g_n$ )	Equity Cost Estimate ( $K$ ) <sup>4</sup>
		$d_1$	$d_2$	$d_3$	$d_4$		
American States Water	36.3	1.16	1.22	1.27	1.34	6.5%	9.6%
California Water	18.0	0.64	0.68	0.71	0.74	6.5%	10.0%
Aqua America	22.4	0.67	0.70	0.73	0.77	6.5%	9.4%
Connecticut Water	28.4	0.97	1.02	1.07	1.12	6.5%	9.8%
Middlesex Water	18.4	0.75	0.78	0.82	0.86	6.5%	10.4%
SJW Corp	23.6	0.73	0.76	0.80	0.84	6.5%	9.5%

Average 9.8%

$$P_0 = \sum_{t=1}^n \frac{D_t}{(1+K)^t} + \frac{D_n(1+g_n)}{K - g_n} \left[ \frac{1}{(1+K)} \right]^n$$

Where :  $P_0$  = current stock price  
 $D_t$  = dividends expected during stage 1  
 $K$  = cost of equity  
 $n$  = years of non - constant growth  
 $D_n$  = dividend expected in year n  
 $g_n$  = constant rate of growth expected after year n

1 [B] see Schedule JAC-7  
2 Derived from Value Line Information  
3 Average annual growth in GDP 1929 - 2011 in current dollars.  
4 Internal Rate of Return of Projected Dividends

BEFORE THE ARIZONA CORPORATION COMMISSION

GARY PIERCE

Chairman

BOB STUMP

Commissioner

SANDRA D. KENNEDY

Commissioner

Commissioner

PAUL NEWMAN

Commissioner

BRENDA BURNS

Commissioner

IN THE MATTER OF THE APPLICATION OF )  
ARIZONA WATER COMPANY, AN ARIZONA )  
CORPORATION, FOR A DETERMINATION OF)  
THE CURRENT FAIR VALUE OF ITS UTILITY )  
PLANT AND PROPERTY AND FOR INCREASE )  
IN ITS WATER RATES AND CHARGES FOR )  
UTILITY SERVICES )

---

DOCKET NO. W-01445A-11-0310

SURREBUTTAL

TESTIMONY

OF

KATRIN STUKOV

UTILITIES ENGINEER

ARIZONA CORPORATION COMMISSION

UTILITIES DIVISION

MAY 7, 2012

## TABLE OF CONTENTS

### PAGE

INTRODUCTION AND PURPOSE OF TESTIMONY .....	1
---	---

**INTRODUCTION AND PURPOSE OF TESTIMONY**

**Q. Please state your name, place of employment and job title.**

A. My name is Katrin Stukov. My place of employment is the Arizona Corporation Commission ("Commission"), Utilities Division, 1200 West Washington Street, Phoenix, Arizona 85007. My job title is Utilities Engineer.

**Q. Are you the same Katrin Stukov who submitted Direct Testimony on behalf of the Utilities Division?**

A. Yes.

**Q. What was the purpose of that testimony?**

A. My Direct Testimony provided the Utilities Division Staff's ("Staff") engineering evaluation of Arizona Water Company's ("AWC" or "Company") water systems for this rate case proceeding.

**Q. What is the purpose of your Surrebuttal Testimony?**

A. To provide Staff's response to the Company's rebuttal testimony of Fredrick Schneider, specifically relative to the statement that Staff has offered no evidence that the Company's proposed amount of \$3,500 Off-Site Facilities Fee is not reasonable.

**Q. Did Staff determine an appropriate Off-Site Facilities Fee of \$ 1,500?**

A. Yes.

1 **Q. Did Staff's Direct Testimony and work papers include explanation on how Staff**  
2 **arrived at this amount?**

3 A. Yes. As explained on page 37 of my Direct Testimony and work papers, Staff used the  
4 Company's water use data sheets for Apache Junction and Superior systems for the test  
5 year in the rate application, the proposed facilities capacity of 3 MGD and an estimated  
6 cost of \$8.8 million to calculate an appropriate fee amount. Based on the capacity of the  
7 facility and the peak day water use from the water use data sheets, Staff determined an  
8 appropriate Facilities Fee of \$1,500 for a new service connection with a 5/8 x 3/4-inch  
9 meter.

10  
11 **Q. What was the amount of the total projected capital cost to design and construct the**  
12 **Off-Site Facilities referenced in Direct Testimonies of Mr. Schneider and Mr. Harris**  
13 **(including Exhibits FKS-7 and JDH-7)?**

14 A. \$ 8.8 million.

15  
16 **Q. Did you use the Company's projected cost of \$ 8.8 million to calculate an appropriate**  
17 **fee amount?**

18 A. Yes. As explained on page 37 of my Direct Testimony and work papers.

19  
20 **Q. Did the Company provide any information, prior to its Rebuttal Testimony,**  
21 **substantiating its 2028 estimate of \$13.4 million to construct its proposed Central**  
22 **Arizona Project treatment plant.**

23 A. No.  
24



1   **Q.    If you used the \$13.4 million figure and the same calculation method you used to**  
2       **calculate the \$1,500 fee, what would be the result?**

3   A.    That calculation would yield a figure of \$2,255.

4  
5   **Q.    Is a Commission Hook-Up Fee intended to or should it cover the entire cost of**  
6       **constructing off-site facilities?**

7   A.    No.

8  
9   **Q.    Please explain?**

10  A.    If a Company pays for all off-site facilities with hook-up fees, i.e. contributions in aid of  
11       construction, and on-site facilities with advances in aid of construction, there is a danger  
12       of eventually having a Company with little or no rate base. To avoid this, a Company  
13       should use its own money to pay for at least a portion of off-site facilities. For this reason,  
14       the intent of off-site hook-up fees is to assist companies to pay for off-site plant, not to  
15       completely pay for all off-site plant.

16  
17  **Q.    Does this conclude your Surrebuttal Testimony?**

18  A.    Yes, it does.

BEFORE THE ARIZONA CORPORATION COMMISSION

GARY PIERCE

Chairman

BOB STUMP

Commissioner

SANDRA D. KENNEDY

Commissioner

PAUL NEWMAN

Commissioner

BRENDA BURNS

Commissioner

IN THE MATTER OF THE APPLICATION )  
OF ARIZONA WATER COMPANY, AN )  
ARIZONA CORPORATION, FOR A )  
DETERMINATION OF THE FAIR VALUE )  
OF ITS UTILITY PLANT AND PROPERTY, )  
AND FOR ADJUSTMENTS TO ITS RATES )  
AND CHARGES FOR UTILITY SERVICE )  
FURNISHED BY ITS WESTERN GROUP )  
AND FOR CERTAIN RELATED )  
APPROVALS. )

DOCKET NO. W-01445A-11-0310

SURREBUTTAL

TESTIMONY

OF

JEFFREY M. MICHLIK

PUBLIC UTILITIES ANALYST V

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

MAY 7, 2012

## **TABLE OF CONTENTS**

	<u>Page</u>
I. INTRODUCTION.....	1
II. RESPONSES TO COMPANY’S REBUTTAL TESTIMONY.....	1
A. Distribution System Improvement Charge (“DSIC”) .....	1
B. Plant Not Used and Useful .....	8
C. Plant Adjustments.....	9
D. Fleet Fuel Expenses.....	9
E. Projected Pumping and Transmission & Distribution Expenses.....	12
F. Rate Case Expense .....	17
G. Property Taxes.....	20
H. Miscellaneous Expenses.....	20
I. Purchased Water Expense (San Manuel only) .....	20

## **ATTACHMENTS**

Food & Water Watch Report.....	A
Staff Email .....	B
Staff Response to Company’s Data Request .....	C

## **SCHEDULES**

### ***SUPERSTION WATER SYSTEM (Apache Junction, Superior, Miami)***

Revenue Requirement.....	JMM-1
Gross Revenue Conversion Factor.....	JMM-2
Rate Base – Original Cost.....	JMM-3
Summary of Original Cost Rate Base Adjustments.....	JMM-4
Rate Base Adjustment No. 1 – Out of Service Plant and RUCO Rate Base Adjustment.....	JMM-5

Rate Base Adjustment No. 2 – Not Used.....	JMM-6
Rate Base Adjustment No. 3 – Cash Working Capital .....	JMM-7
Operating Income Statement – Adjusted Test Year and Staff Recommended.....	JMM-8
Summary of Operating Income Statement Adjustments -- Test Year.....	JMM-9
Operating Income Adj. No. 1 – Reverse Unbilled Expenses.....	JMM-10
Operating Income Adj. No. 2 – Fleet Fuel Expense .....	JMM-11
Operating Income Adj. No. 3 – Removal of Projected Expenses.....	JMM-12
Operating Income Adj. No. 4 – RUCO Miscellaneous Expenses .....	JMM-13
Operating Income Adj. No. 5 – Removal of Additional BMP Expenses .....	JMM-14
Operating Income Adj. No. 6 – Rate Case Expense .....	JMM-15
Operating Income Adj. No. 7 – Depreciation Expense .....	JMM-16
Operating Income Adj. No. 8 – Income Tax Expense.....	JMM-17
Operating Income Adj. No. 9 – Property Tax Expense .....	JMM-18

***COCHISE WATER SYSTEM (Bisbee, Sierra Vista)***

Revenue Requirement.....	JMM-1
Gross Revenue Conversion Factor.....	JMM-2
Rate Base – Original Cost.....	JMM-3
Summary of Original Cost Rate Base Adjustments.....	JMM-4
Rate Base Adjustment No. 1 – RUCO Rate Base Adjustment.....	JMM-5
Rate Base Adjustment No. 2 – Not Used.....	JMM-6
Rate Base Adjustment No. 3 – Cash Working Capital .....	JMM-7
Operating Income Statement – Adjusted Test Year and Staff Recommended.....	JMM-8
Summary of Operating Income Statement Adjustments – Test Year .....	JMM-9
Operating Income Adj. No. 1 – Reverse Unbilled Expenses.....	JMM-10
Operating Income Adj. No. 2 – Fleet Fuel Expense .....	JMM-11
Operating Income Adj. No. 3 – Removal of Projected Expenses.....	JMM-12
Operating Income Adj. No. 4 – RUCO Miscellaneous Expense Adjustment .....	JMM-13
Operating Income Adj. No. 5 – Not Used .....	JMM-14
Operating Income Adj. No. 6 – Rate Case Expense .....	JMM-15
Operating Income Adj. No. 7 – Depreciation.....	JMM-16

Operating Income Adj. No. 8 – Income Tax Expense .....	JMM-17
Operating Income Adj. No. 9 – Property Tax Expense .....	JMM-18

### ***SAN MANUEL WATER SYSTEM***

Revenue Requirement.....	JMM-1
Gross Revenue Conversion Factor.....	JMM-2
Rate Base – Original Cost.....	JMM-3
Summary of Original Cost Rate Base Adjustments.....	JMM-4
Rate Base Adjustment No. 1 – RUCO Rate Base Adjustment.....	JMM-5
Rate Base Adjustment No. 2 – Not Used.....	JMM-6
Rate Base Adjustment No. 3 – Cash Working Capital .....	JMM-7
Operating Income Statement – Adjusted Test Year and Staff Recommended.....	JMM-8
Summary of Operating Income Statement Adjustments – Test Year.....	JMM-9
Operating Income Adj. No. 1 – Reverse Unbilled Expenses.....	JMM-10
Operating Income Adj. No. 2 – Fleet Fuel Expense .....	JMM-11
Operating Income Adj. No. 3 – Removal of Projected Expenses.....	JMM-12
Operating Income Adj. No. 4 – Water Testing Expense and RUCO Miscellaneous Expense Adjustment.....	JMM-13
Operating Income Adj. No. 5 – Purchased Water Expense.....	JMM-14
Operating Income Adj. No. 6 – Rate Case Expense .....	JMM-15
Operating Income Adj. No. 7 – Depreciation Expense .....	JMM-16
Operating Income Adj. No. 8 – Income Tax Expense .....	JMM-17
Operating Income Adj. No. 9 – Property Tax Expense .....	JMM-18

### ***ORACLE WATER SYSTEM***

Revenue Requirement.....	JMM-1
Gross Revenue Conversion Factor.....	JMM-2
Rate Base – Original Cost.....	JMM-3
Summary of Original Cost Rate Base Adjustments.....	JMM-4
Rate Base Adjustment No. 1 – RUCO Rate Base Adjustment.....	JMM-5
Rate Base Adjustment No. 2 – Not Used.....	JMM-6

Rate Base Adjustment No. 3 – Cash Working Capital .....	JMM-7
Operating Income Statement – Adjusted Test Year and Staff Recommended .....	JMM-8
Summary of Operating Income Statement Adjustments – Test Year .....	JMM-9
Operating Income Adj. No. 1 – Reverse Unbilled Expenses.....	JMM-10
Operating Income Adj. No. 2 – Fleet Fuel Expense .....	JMM-11
Operating Income Adj. No. 3 – Removal of Projected Expenses.....	JMM-12
Operating Income Adj. No. 4 – RUCO Miscellaneous Expense Adjustment .....	JMM-13
Operating Income Adj. No. 5 – Not Used .....	JMM-14
Operating Income Adj. No. 6 – Rate Case Expense .....	JMM-15
Operating Income Adj. No. 7 – Depreciation Expense .....	JMM-16
Operating Income Adj. No. 8 – Income Tax Expense .....	JMM-17
Operating Income Adj. No. 9 – Property Tax Expense .....	JMM-18

### ***SADDLEBROOKE RANCH WATER SYSTEM***

Revenue Requirement.....	JMM-1
Gross Revenue Conversion Factor.....	JMM-2
Rate Base – Original Cost.....	JMM-3
Summary of Original Cost Rate Base Adjustments.....	JMM-4
Rate Base Adjustment No. 1 – RUCO Rate Base Adjustment .....	JMM-5
Rate Base Adjustment No. 2 – Capitalize Water Testing Expense .....	JMM-6
Rate Base Adjustment No. 3 – Cash Working Capital .....	JMM-7
Operating Income Statement – Adjusted Test Year and Staff Recommended .....	JMM-8
Summary of Operating Income Statement Adjustments – Test Year .....	JMM-9
Operating Income Adj. No. 1 – Reverse Unbilled Expenses.....	JMM-10
Operating Income Adj. No. 2 – Fleet Fuel Expense .....	JMM-11
Operating Income Adj. No. 3 – Removal of Projected Expenses.....	JMM-12
Operating Income Adj. No. 4 – RUCO Miscellaneous Expense Adjustment .....	JMM-13
Operating Income Adj. No. 5 – Not Used .....	JMM-14
Operating Income Adj. No. 6 – Rate Case Expense .....	JMM-15
Operating Income Adj. No. 7 – Depreciation Expense .....	JMM-16
Operating Income Adj. No. 8 – Income Tax Expense .....	JMM-17

Operating Income Adj. No. 9 – Property Tax Expense .....	JMM-18
--	--------

### ***WINKELMAN WATER SYSTEM***

Revenue Requirement.....	JMM-1
Gross Revenue Conversion Factor.....	JMM-2
Rate Base – Original Cost.....	JMM-3
Summary of Original Cost Rate Base Adjustments.....	JMM-4
Rate Base Adjustment No. 1 – RUCO Rate Base Adjustment.....	JMM-5
Rate Base Adjustment No. 2 – Not Used.....	JMM-6
Rate Base Adjustment No. 3 – Cash Working Capital .....	JMM-7
Operating Income Statement – Adjusted Test Year and Staff Recommended .....	JMM-8
Summary of Operating Income Statement Adjustments – Test Year .....	JMM-9
Operating Income Adj. No. 1 – Reverse Unbilled Expenses.....	JMM-10
Operating Income Adj. No. 2 – Fleet Fuel Expense .....	JMM-11
Operating Income Adj. No. 3 – Removal of Projected Expenses.....	JMM-12
Operating Income Adj. No. 4 – RUCO Miscellaneous Expense Adjustment .....	JMM-13
Operating Income Adj. No. 5 – Not Used .....	JMM-14
Operating Income Adj. No. 6 – Rate Case Expense .....	JMM-15
Operating Income Adj. No. 7 – Depreciation Expense .....	JMM-16
Operating Income Adj. No. 8 – Income Tax Expense .....	JMM-17
Operating Income Adj. No. 9 – Property Tax Expense .....	JMM-18

### **APPENDIX**

Appendix.....	A
---------------	---

**EXECUTIVE SUMMARY  
ARIZONA WATER COMPANY  
EASTERN GROUP  
DOCKET NO. W-01445A-11-0310**

The Surrebuttal Testimony of Jeffrey M. Michlik addresses the following issues:

1) Distribution System Improvement Charge; 2) Plant Not Used and Useful; 3) Plant Adjustments; 4) Fleet Fuel Expenses; 5) Projected Pumping and Transmission & Distribution Expenses; 6) Rate Case Expense; 7) Property Taxes; 8) Miscellaneous Expenses; 9) Purchased Water Expense (San Manuel only).

Staff recommends that, if Well No. 17 is included in rate base, the post-test year plant items taken out of service by the Company should be removed from rate base.

Staff recommends that the Company file its Groups (Eastern, Western, and Northern) together when its rate cases for any combination of those Groups are based on the same test year.



1 **I. INTRODUCTION**

2 **Q. Please state your name, occupation, and business address.**

3 A. My name is Jeffrey M. Michlik. I am a Public Utilities Analyst V employed by the  
4 Arizona Corporation Commission ("Commission") in the Utilities Division ("Staff"). My  
5 business address is 1200 West Washington Street, Phoenix, Arizona 85007.  
6

7 **Q. Are you the same Jeffrey M. Michlik that filed Direct Testimony in this case?**

8 A. Yes, I am.  
9

10 **II. RESPONSES TO COMPANY'S REBUTTAL TESTIMONY**

11 **A. Distribution System Improvement Charge ("DSIC")**

12 **Q. Did you address the DSIC in your direct testimony?**

13 A. Yes.  
14

15 **Q. Have you reviewed the rebuttal testimonies of Arizona Water Company ("Company"  
16 or "AWC") witnesses Pauline M. Ahern and Joseph D. Harris regarding the DSIC?**

17 A. Yes.  
18

19 **Q. What did Ms. Ahern file in support of the DSIC?**

20 A. Generally, quotes from State Public Utility Commissions in which DSICs have been  
21 implemented, reports from credit rating agencies, excerpts from the National Association  
22 of Regulatory Utility Commissioners ("NARUC") best practices, and infrastructure  
23 reports.  
24

1 **Q. Is it surprising to Staff that adopting a DSIC improves a utility's credit rating?**

2 A. No. A DSIC accelerates cash flow collection, and it shifts risk from the Company to  
3 ratepayers outside of a general rate case. Thus, the DSIC leans toward ensuring a return  
4 rather than providing an opportunity to earn a fair rate of return. The question that must  
5 be answered is whether the additional cost and the shift in risk to ratepayers are properly  
6 balanced with the benefits.

7  
8 **Q. How many states have adopted a DSIC or similar mechanism?**

9 A. Staff's understanding is that eleven states have adopted a DSIC or similar mechanism.  
10 This may suggest that most states consider the costs of adopting a DSIC to outweigh the  
11 benefits.

12  
13 **Q. Is Staff aware of any organizations that have expressed concern that DSICs fail to  
14 provide the requisite balance of costs and benefits?**

15 A. Yes. As cited in Mr. Rigsby's direct testimony, the National Association of State  
16 Consumer Advocates does not endorse DSIC-type mechanisms. Further, the Food and  
17 Water Watch organization calls the DSIC an outright rip-off for consumers (see  
18 Attachment A).

19  
20 **Q. The Company has noted the advantages of adopting a DSIC for water companies.  
21 What are the benefits or advantages to ratepayers?**

22 A. One assertion is that the DSIC will help water utility companies provide safe and reliable  
23 drinking water. However, all water utilities in the state of Arizona have an obligation to  
24 provide safe and reliable drinking water with or without a DSIC. Another assertion is that  
25 the DSIC increase rates more gradually. While gradualism is a positive attribute, it should  
26 be weighed against the potential detriments of adopting a DSIC including: introducing the

1 element of single issue ratemaking (i.e., not all of the components of revenue requirement  
2 are reviewed at the same time as occurs in a rate case, and an earnings test does not  
3 provide the same level of scrutiny as a rate case to ensure that over-earning is not present);  
4 and accelerated recovery disrupts the balance that exists in the ratemaking framework.  
5

6 **Q. What is Staff's response to the notion that a DSIC is needed to overcome regulatory**  
7 **lag that negatively affects utility plant investment?**

8 A. Utilities regularly make plant investments and incur incremental costs between rate cases.  
9 The regulatory framework assumes that these costs are offset by other regulatory benefits.  
10 For example, utilities often experience customer growth and benefit from collection of the  
11 commensurate associated incremental revenues. Another example of regulatory lag that  
12 benefits a utility is the recovery of investment via depreciation expense between rate  
13 cases. Furthermore, negative regulatory lag acts in a positive manner to encourage  
14 utilities to find operating efficiencies.  
15

16 **Q. Did Staff offer an alternative to the DSIC in its direct testimony?**

17 A. Yes, however, the Company rejected Staff's alternative with reservation. Apparently, the  
18 Company is unwilling to compromise on its proposed DSIC to provide an opportunity to  
19 more gradually introduce a new regulatory mechanism with which it has no prior  
20 experience or data.  
21

22 **Q. If the Commission disagrees with Staff and is inclined to adopt a DSIC, what**  
23 **conditions would Staff recommend be included in a DSIC for the Company's Eastern**  
24 **Group?**

25 A. Staff would recommend the following (Staff reserves the right to add additional conditions  
26 as the DSIC process evolves):

- 1           1. Limiting authorization to the Eastern Group subsystems that have water loss over 10
- 2           percent, i.e., Oracle/Saddlebrooke, Bisbee and Miami.
- 3           2. Requiring the Company to submit quarterly filings for the first year, semi-annual
- 4           filings thereafter, and a cumulative annual report.
- 5           3. Requiring that charges be revised and become effective on a yearly basis.
- 6           4. Directing Staff to review the Company's initial annual filing and prepare a
- 7           memorandum and recommended order to be approved by the Commission before the
- 8           initial DSIC surcharge is implemented. Staff will review subsequent filings at its
- 9           discretion (but no later than the Company's next rate case), however the DSIC
- 10          surcharges would become effective 30 days after the annual filing.
- 11          5. Requiring that any over-collections (for overcharges due to improperly calculated
- 12          DSICs after the initial year) be refunded with interest at the weighted average cost of
- 13          capital ("WACC") authorized in the Company's most recent rate case. Such refund
- 14          would be implemented as determined by the Commission in a future rate case.
- 15          6. Requiring that the initial and any subsequent yearly increase be limited to 2 percent of
- 16          the Commission-authorized revenue by subsystem in this case, that the cumulative
- 17          annualized DSIC revenue by subsystem be limited to 6 percent, and that the DSIC
- 18          revenue be subject to an earnings test as discussed below.
- 19          7. Limiting the plant items eligible for a DSIC to those in the following accounts:
- 20           a. Account 343 – Transmission and Distribution Mains
- 21           b. Account 344 – Fire Mains
- 22           c. Account 345 – Services
- 23           d. Account 346 – Meters
- 24           e. Account 347 – Meter Installations
- 25           f. Account 348 – Hydrants

- 1           8. Requiring that the filings referenced in recommendation #2 above contain the total  
2           amount of plant built during the period reconciled to the amounts recorded by  
3           individual plant account, along with all supporting documentation and any required  
4           regulatory permits.
- 5           9. Directing the Company to record any plant items replaced in accordance with the  
6           NARUC Uniform System of Accounts and to include documentation showing these  
7           transactions in all filings.
- 8           10. Reducing the DSIC revenue by 10 percent to account for any cost savings such as  
9           reduced operating expenses resulting from plant improvements.
- 10          11. Requiring an earnings test, each time Staff reviews the Company's filings, that limits  
11          the authorized DSIC revenue when the operating income (rate base x WACC) would  
12          exceed the authorized WACC. The earnings test should be based on the most recent  
13          available operating income adjusted for any operating revenue and expense  
14          adjustments adopted in this rate proceeding and the rate base adopted in this rate case  
15          updated to recognize changes in plant, accumulated depreciation, contributions-in-aid-  
16          of-construction ("CIAC") advances-in-aid-of-construction ("AIAC") and accumulated  
17          deferred income taxes through the most recently available (no less than quarterly)  
18          financial statements.
- 19          12. Directing the Company to notify customers of changes in the DSIC by including  
20          appropriate explanatory information on the first bill they receive following any change  
21          in the DSIC rate as well as in the first billing following the effective date of rates  
22          established in this rate case.
- 23          13. Specifying that the costs of only replacement facilities (from the six accounts listed  
24          above) to serve existing customers are recoverable through a DSIC. Specifying that  
25          projects receiving funds from federal, state and other non-investor sources are not  
26          DSIC eligible property.

1 14. Application of the DSIC charge as a percentage carried to two decimal places (e.g.,  
2 1.54 percent) to the total amount billed to each customer under the Company's  
3 otherwise applicable rates and charges.

4 15. Informing the Company that if it cannot demonstrate a reduction in its water loss, the  
5 DSIC monies collected may be required to be refunded to ratepayers.  
6

7 **Q. Has Staff developed the specifics of how the DSIC surcharge would be calculated?**

8 A. Not at this point, but Staff intends to file additional testimony or a late filed exhibit at a  
9 later date, Staff at this point has only provided a general framework from Staff's  
10 perspective of what should be included in a DSIC.  
11

12 **Q. For clarification purposes, is Staff offering both its recommended Sustainable Water  
13 Loss Improvement Program ("SWIP") and a Staff recommended DSIC?**

14 A. No. Staff recommends the SWIP as discussed in my direct testimony. However, if the  
15 Commission is inclined to adopt a DSIC as opposed to the SWIP, Staff recommends  
16 adopting at least the conditions discussed above.  
17

18 **Q. Does the Company continue to equate a DSIC with an Arsenic Cost Recovery  
19 Mechanism "ACRM" in its rebuttal testimony?**

20 A. Yes.  
21

22 **Q. Does Staff agree that the DSIC proposed by the Company is equivalent to an  
23 ACRM?**

24 A. No.  
25

1     **Q.     Can you give a brief history of the ACRM?**

2     A.     Yes. On January 23, 2006, new rules from the Environmental Protection Agency ("EPA")  
3           became effective reducing the permissible arsenic contamination level in drinking water  
4           from 50 to 10 parts per billion. Due to the anticipated high arsenic treatment costs, related  
5           financial burdens for water utilities and the large number of affected utilities, the  
6           Commission authorized special processes to allow recovery of arsenic treatment costs.  
7           Although these processes must be authorized within a rate case, they provide utilities a  
8           more timely and efficient means to recover arsenic remediation costs than is available  
9           through normal ratemaking procedures. The special process established for Arizona  
10          Water Company is referred to as an Arsenic Cost Recovery Mechanism, or simply an  
11          ACRM. An ACRM provides for recovery of arsenic related capital improvements and  
12          narrowly defined "allowable" O&M expenses (i.e., media replacement, media disposal  
13          and media regeneration), between rate cases.

14  
15    **Q.     What are some of the differences between the Company's proposed DSIC and an**  
16    **ACRM?**

17    A.     The ACRM was implemented to address a Federal mandate to reduce the level of arsenic  
18           in potable water. The DSIC is designed to help fund the normal replacement of aging  
19           infrastructure. The ACRM was implemented to address what was anticipated to be an  
20           extraordinary financial burden that would jeopardize the continuing effective operation of  
21           water utilities to provide safe, sufficient and reliable drinking water. No similar  
22           circumstance applies to the DSIC. The ACRM was implemented to avoid an anticipated  
23           overwhelming regulatory burden resulting from potentially hundreds of near simultaneous  
24           urgent filings before the Commission. The DSIC does not relate to any such regulatory  
25           burden.

1 **Q. Please comment on Ms. Aherns statement on page 28 of her rebuttal testimony that**  
2 **the Arizona Corporation Commission has imposed its own mandate on Water**  
3 **Companies to reduce their water losses to less than 10 percent?**

4 A. Reducing unaccounted for water does not parallel reducing the maximum contaminant  
5 level for arsenic. On a fundamental basis, the amount of arsenic in groundwater is not a  
6 function of the operation of the water system and is outside of the Company's control.  
7 However, the Company operating activity can and does impact the amount of unaccounted  
8 for water. Proper planning for replacement and repair and maintenance affects water loss.  
9 Usually, the Staff recommendation to reduce unaccounted for water calls for a plan to  
10 reduce water loss to below ten percent, but provides an exception if the plan is not cost  
11 effective. Cost effectiveness is not a significant criteria for allowing a waiver from  
12 complying with the arsenic maximum contaminant level.

13  
14 **B. Plant Not Used and Useful**

15 **Q. Have you reviewed the rebuttal testimonies of Joel M. Reiker and Fredrick**  
16 **Schneider regarding Miami Well No. 17?**

17 A. Yes.

18  
19 **Q. Does Staff agree with the Company?**

20 A. No. Engineering Staff has consistently applied the used *and* useful standard when  
21 disallowing plant.<sup>1</sup>

22  
23 **Q. Was Miami Well No. 17 in service and providing service to test year customers?**

24 A. No. As stated in the Company e-mail between Staff Engineer Katrin Stukov and Mr.  
25 Schneider, Well No. 17 has been out of service since August 2008. Well No. 17 consisted

---

<sup>1</sup> The Company unsuccessfully argued in its prior rate case (Decision No. 71845) that the definition should be used *or* useful.



1 of a well (\$30,174), pumping plant structures (\$457), and electric pumping equipment  
2 (\$6,905). The Company in its rebuttal testimony stated that well 17 was placed back in  
3 service on February 13, 2012, two years after the test year (See Attachment B).

4  
5 **Q. What else did Staff note when examining the Company's plant?**

6 A. Staff noted that starting on January 1st, 2011 and continuing forward, several of the  
7 Company's Eastern Group plant items were taken out of service (see Direct Testimony of  
8 Katrin Stukov, Description of System footnotes). The Company is requesting the best of  
9 both worlds, first by taking these plant items out-of-service after the test year without a  
10 proforma reduction to rate base because it is outside the test year, and at the same time it is  
11 asking for a proforma increase in rate base for post-test year plant. The Company's  
12 asymmetrical ratemaking proposal should be denied. Staff recommends that if Well No.  
13 17 is included in rate base, the post-test year plant items taken out of service by the  
14 Company should be removed from rate base.

15  
16 **C. Plant Adjustments**

17 **Q. Has Staff adopted RUCO's adjustment to reduce Post-Test Year plant as agreed to**  
18 **by the Company in its rebuttal?**

19 A. Yes. The adjustment is shown is Surrebuttal Schedule JMM-5 for each of the systems.  
20

21 **D. Fleet Fuel Expenses**

22 **Q. Did Staff state in its direct testimony that it would update its schedules based on new**  
23 **gasoline price information?**

24 A. Yes.  
25

1 **Q. Did the Company accept Staff's fuel expense adjustment in the Company's Western**  
2 **Group case?**

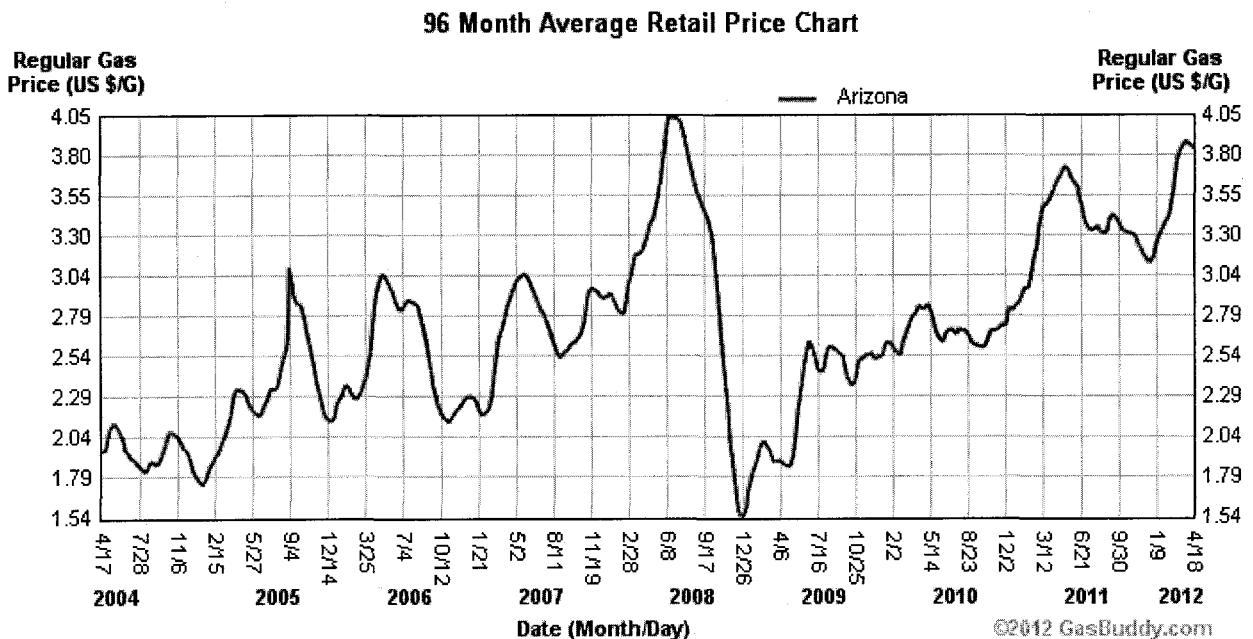
3 A. Yes. On page 15 of Company Witness Reiker's Rebuttal Testimony in Docket No. W-  
4 01445A-10-0517, the Company adopted Staff's adjustment.

5  
6 **Q. Did Staff use the same methodology in this case?**

7 A. Yes. Due to the volatility of gasoline, Staff utilized the same methodology – a 12-month  
8 average of known and measureable costs. In the previous case, the gasoline price data  
9 suggested that the price was going down. Using an averaging methodology benefitted the  
10 Company and the Company accepted Staff's adjustment. In the present case, gasoline  
11 prices have increased; using the same averaging methodology is not beneficial to the  
12 Company and now the Company rejects Staff's adjustment. The Company is inconsistent  
13 in its recognition of an appropriate method to address the volatility in gasoline prices.  
14

15 **Q. Historically have gasoline prices been stable?**

16 A. No, as demonstrated in the graph below:



1 **Q. What is the fallacy of Mr. Reiker's argument?**

2 A. He assumes gas prices will stay the same or increase. While the data suggest that the price  
3 of gas has increased over time, it does not remain at peak levels, and it can drop  
4 precipitously.

5  
6 **Q. What does the latest gasoline price data suggest?**

7 A. As of the second quarter of 2012, gasoline prices are trending downward.  
8

9 **Q. Mr. Reiker stated that the average price of gasoline in Arizona had risen to \$3.887**  
10 **per gallon. Please comment.**

11 A. Yes. But gasoline price data as of April 18, 2012 shows gasoline prices declining to  
12 \$3.852 per gallon, demonstrating the high volatility of gasoline and why an average of 12  
13 months of known and measureable gasoline prices is preferable than selecting a single  
14 price in time. Further, setting the price at a single point could lead to a windfall profit to  
15 the Company. If rates had been established based on the historical peak \$4.05 gasoline  
16 price in 2008, the Company would have over-recovered since the price has never again  
17 reached \$4.05.  
18

19 **Q. Has Staff adjusted its schedules to reflect the most recent known and measureable**  
20 **price data?**

21 A. Yes. Staff now recommends a price per gallon of \$3.47.  
22

23 **Q. Does this reflect the rise in gasoline prices from January to March?**

24 A. Yes, updating the 12-month average to recognize gasoline prices through March 2012  
25 results in a \$3.47 per gallon price as compared to the \$3.38 per gallon amount Staff  
26 recommended in direct testimony.

1 **Q. Is \$3.47 per gallon price greater than the average 2010 test year gasoline price?**

2 A. Yes.

3  
4 **Q. What is Staff's recommendation?**

5 A. Staff recommends an average price of gasoline of \$3.47; these changes are reflected in  
6 Staff Surrebuttal Schedule JMM-11.

7  
8 **E. Projected Pumping and Transmission & Distribution Expenses**

9 **Q. Has Staff conducted a more thorough analysis of the Company's regression models?**

10 A. Yes.

11  
12 **Q. What is a regression analysis?**

13 A. Regression analysis is a statistical technique for determining "a line of best fit" for a set of  
14 data points. In this case, a simple regression model with a dependent variable "Expenses"  
15 (Y) and independent variable "Year" (X) is used to assess the association between the two  
16 variables. The Company has assumed expenses are growing linearly over time. Each  
17 year expenses will grow/fall by some fixed amount. Staff has maintained this assumption  
18 of linear growth in its review and analysis of expenses. Regression analysis allows  
19 estimation of the equation for the line specifying the relationship between expenses and  
20 time. The slope-intercept form the line is  $Y = m(x) + b$  (expenses = slope\*year+intercept).

21  
22 In the equation, Y is the dependent variable (in this case expenses), X is the year in  
23 question, "m" is the slope of the regression line and "b" is the Y intercept of the regression  
24 line. In this analysis estimating "m" is the primary goal, because it represents the change  
25 in Y divided by the change in X, which in this case, is the change in expenses each year.  
26 The slope "m" and intercept "b" are easily calculated with the use of the Excel regression

1 tool. Using the relationship determined by regression, expenses (Y) can be estimated by  
2 entering the appropriate year (X).

3  
4 **Q. Can you explain the method in more detail?**

5 A. Yes. The relevant data for the Eastern group is presented in Appendix A (Table 1 and  
6 Table II). The following example is presented using the Superstition water system, Based  
7 on the regression equation  $Y = m(x) + b$ , the projected 2014 expense amount as presented  
8 in Table 1 for the Superstition water system is calculated as follows: \$1,164,033 (rounded)  
9 = \$41,367(14years) + \$584,895. In this case, the slope "m" is \$41,367 and the Y-intercept  
10 "b" is \$584,895. The slope indicates that each year expenses should increase by  
11 approximately \$41,367, assuming that the "m" is statistically significant.

12  
13 **Q. Are the Company-proposed T&D pro-forma adjustments based on results that are**  
14 **statistically significant and statistically robust?**

15 A. No. A statistically robust estimate could be confirmed using data over different time  
16 periods. The Company used 11 years of data in its regression analyses. Staff has  
17 performed analyses using shorter periods, specifically 3 through 10 years. The results  
18 differ radically among the different formulations of the model(s) (See Table II in  
19 Appendix A).

20  
21 **Q. Discuss the meaning of R and R squared, as presented in Table II.**

22 A. The coefficients of correlation ("R") are measures of the strength and direction of linear  
23 relationships, and range between negative 1 (perfect inverse linear relationship) and  
24 positive 1 (perfect direct linear relationship). The coefficients of determination ("R  
25 squared") are the squares of the coefficients of correlation (R) for these simple regression

1 models. For a simple regression model the R squared can be viewed as the portion of the  
2 variation in Y attributed to the variation in X.

3  
4 The R squared for the Company's 11-year regression model are 60.46 percent for  
5 Superstition, 35.05 for Cochise, 0.01 percent for San Manuel, 26.41 percent for Oracle,  
6 and 30.11 percent for Winkelman. The Company's eleven-year models (For all systems  
7 other than SaddleBrooke Ranch) and its four-year model for SaddleBrooke Ranch indicate  
8 that *only* Saddle Brooke Ranch has an R squared exceeding 75 percent, a level indicating  
9 that over three-quarters of the variation in expenses is explained by the change in time.  
10 The R squared for the four-year SaddleBrooke Ranch model indicates that 89.31 percent  
11 of the total variation in T&D expenses is explained by years. The other 10.69 percent is  
12 explained by something else. The other models' R squareds cannot support such a high  
13 correlation between expenses and time for the other systems. Table II also presents P-  
14 Value, a measure of statistical significance for an independent variable. This will be  
15 discussed below.

16  
17 **Q. What do you mean by statistical significance?**

18 **A.** As described above, regression analysis has been used to estimate the slope of a line,  
19 which in this case is the change in expenses per year. In every model considered, the data  
20 never perfectly fits the regression line. This is expected when dealing with real world  
21 data. The consequences of this less than perfect fit are that the regression results must be  
22 viewed as estimates.

23  
24 The P-Values shown in Table II, indicate whether the results are significantly different  
25 from zero. In simple terms, a slope-coefficient of zero means that this variable has no  
26 impact. The regression output shows a 95 percent confidence interval that can be used to

1 quantify the low case estimate (lower bound) and high case estimate (upper bound) for the  
2 true slope that relates expenses to time. When the P-Value is greater than 5.00 percent,  
3 zero is inside the confidence interval and the slope estimate is considered statistically  
4 insignificant because it has no practical use, meaning that the variable has no  
5 consequence. Additionally, the lower bound of the estimate will be negative and the  
6 upper bound will be positive, which creates a confusing and useless message that the slope  
7 may be negative, or may be positive, or somewhere in between, perhaps even zero. The  
8 conclusion is that no known and measureable adjustment could be based on such an  
9 ambiguous result.

10  
11 The P-Values for the Company's 11-year regression model are 0.48 percent for  
12 Superstition, 5.50 for Cochise, 98.27 percent for San Manuel, 10.59 percent for Oracle,  
13 and 8.05 percent for Winkelman. The P-Value for the Company's 4-year regression model  
14 is 5.49 percent.

15  
16 Only the Company's Superstition water system has a P-Value less than 5.00 percent (0.48  
17 percent). However, as discussed above with an R squared value of 60.46 percent, the  
18 regression model is not useful.

19  
20 **Q. What conclusion can be drawn from the selected statistical data in Table II?**

21 **A.** First, the combination of low R squared values and high P-Values make the Company's  
22 use of 11-year statistical regression (and 4-year for SaddleBrooke Ranch) invalid. Second,  
23 in the absence of the constraint to use a historical test year and assuming a statistical  
24 projection based on a regression analysis was determined to be appropriate, the best period  
25 for the regression model is 4 years, not 11 years as proposed by the Company for the  
26 Superstition, San Manuel, Oracle, and Winkelman water systems (the other two systems

1 are not relevant). Using a 4-year regression would result in negative pro-forma  
2 adjustments for each of the systems except for a nominal \$373 annual increase for the  
3 SaddleBrooke Ranch water system.

4  
5 **Q. Has Staff compared the Company's 2011 actual transmission and distributions**  
6 **results with the projected estimates?**

7 A. Yes.

8  
9 **Q. What are the results?**

10 A. As expected the actual amounts the Company expended on transmission and distribution  
11 were substantially less than the Company's flawed regression models predicted, as shown  
12 in Table III.

13  
14 **Q. Do you have other comments?**

15 A. Yes.

16  
17 **Q. Please comment on Company witness Reiker's statement on page 16, line 1 about the**  
18 **known and measureable standard?**

19 A. As explained above *the known condition or the known pattern of change* suggests a  
20 downward trend and is statistically significant, not the reverse.

21  
22 **Q. Please comment on Company witness Reiker's statement on page 19, line 24 about**  
23 **the Company freezing dividends.**

24 A. Mr. Reiker suggests that the Company did freeze its dividends during 2008, which the  
25 Company confirmed in response to RUCO data request 5.01. To clarify, the Company did  
26 pay dividends in the amount of \$1,071,900, but did not increase the amount. However, in



1           2011, the Company has again increased its dividends to \$1,169,100, even though as  
2           explained above, the expenses for distribution and transmission costs continue to decline.

3  
4       **Q.    Is normalizing known and measureable expenses over a three-year period preferable**  
5       **to a projection of future expenses based on a faulty regression analysis?**

6       A.    Yes, Staff concludes that it is.

7  
8       **F.    Rate Case Expense**

9       **Q.    Have you read the Company's response to rate case expense, starting on page 21, of**  
10       **Mr. Reiker's testimony?**

11       A.    Yes.

12  
13       **Q.    Has the Company demonstrated significant economies in rate case expense since its**  
14       **prior rate cases?**

15       A.    No.

16  
17       **Q.    Has the Company's choice to separate its filings placed additional burdens on Staff,**  
18       **RUCO, the Hearing Division, the Commission, and the Company?**

19       A.    Yes. Instead of filing all of the Company's groups and systems together, the Company  
20       chose to file its groups separately. Staff and RUCO have already filed two direct and now  
21       two surrebuttal testimonies for the Eastern Group. The Hearing Division has already  
22       issued one Recommended Order and Opinion for the Western Group and will now have to  
23       issue at least one more for the Eastern Group. The Commission has already issued one  
24       Decision for the Western Group and will now have to issue a separate Decision for the  
25       Eastern Group. The Company has yet to file its Northern Division which will consume  
26       more time and effort. Bottom line, this is not an effective use of time for Staff, RUCO,

1 the Hearing Division, the Commission, and the Company. The whole process is  
2 duplicative and repetitive.

3  
4 **Q. Are the issues and adjustments proposed by the Company and recommended by**  
5 **Staff made in this case similar to those in the Western Group?**

6 A. Yes.

7  
8 **Q. Mr. Reiker on page 24, of his rebuttal testimony provides the docket number and**  
9 **date filed for its Northern Group, Eastern Group, and Western Group, and he states**  
10 **that Staff did not object to the Company filing these Groups individually versus as**  
11 **one filing. Please comment.**

12 A. The Company filed these cases in 2000, 2002 and 2004 and used difference test years for  
13 each. In this instance the Company's filing are separated by only three months.

14  
15 **Q. Mr. Reiker on page 23, of his rebuttal testimony relies on Decision No. 58120, dated**  
16 **December 23, 1992, to support filing its groups separately. Please comment.**

17 A. Nearly two decades have passed since this Decision was rendered, and circumstances have  
18 changed in terms of a movement toward consolidating rates, technologies and access to  
19 computers and software and the ever pressing expectations for utilities to find operating  
20 efficiencies.

21  
22 **Q. Please comment about the Company citation on page 27 of Mr. Reiker's testimony**  
23 **that Staff has recommended rate case expense of \$400,000 for Pima Utility**  
24 **Company?**

25 A. In an attempt to bolster its argument the Company cites the current Pima Water Utility  
26 Company rate case, and Staff's rate case expense recommendation of \$400,000.

1 Although, I am not the analyst assigned to the case, Staff has always judged each case on  
2 an individual basis, that is because certain facts may not be the same as in other cases.  
3 However, I would note that had Pima Water Utility Company used the Company's  
4 methodology it would have filed either the water or wastewater division first, and then  
5 waited three months and filed the other division potentially increasing the rate case  
6 expense request well beyond \$400,000.

7  
8 **Q. Are you aware of any other Water or Wastewater Company, utilizing the same test**  
9 **year and filing its systems, districts, or divisions a few months apart thereby**  
10 **increasing rate case expense?**

11 A. No.

12  
13 **Q. Has the Company adequately explained why it needed to file its groups separately,**  
14 **after Staff suggested that it file all its groups together in a pre-rate case meeting (See**  
15 **Attachment C)?**

16 A. No. Mr. Reiker on page 25 of his rebuttal testimony attempts to support the Company's  
17 separate Group filing by noting that the days to process its consolidated filing (08-0444)  
18 were longer than for its individual Group rate cases. The Company has not demonstrated  
19 that the length of time for processing the consolidated rate case versus individual Group  
20 rate cases was related to the consolidation versus other factors.

21  
22 **Q. Does Staff have any additional recommendations?**

23 A. Yes. Staff recommends that the Company file its Groups (Eastern, Western, and Northern)  
24 together when its rate cases for any combination of those Groups are based on the same  
25 test year.  
26

1 **G. Property Taxes**

2 **Q. Has the Company proposed increasing its current effective property tax rate for**  
3 **known and measurable changes?<sup>2</sup>**

4 **A. Yes, Staff accepts these changes, and they are reflected in Staff's surrebuttal schedules.**  
5

6 **H. Miscellaneous Expenses**

7 **Q. Has Staff adopted RUCO's adjustment to reduce Miscellaneous Fees by \$10,664 as**  
8 **agreed to by the Company in its rebuttal?<sup>3</sup>**

9 **A. Yes. The adjustment is shown in Surrebuttal Schedule JMM-13 for each of the systems.**  
10

11 **I. Purchased Water Expense (San Manuel only)**

12 **Q. Has Staff adopted the \$82,364 downward adjustment for the San Manuel system**  
13 **proposed by Mr. Reiker's rebuttal testimony (pages 35 and 36) to reflect a revised**  
14 **purchased water agreement?**

15 **A. Yes. The adjustment is shown in Surrebuttal Schedule JMM-14 for the San Manuel**  
16 **system.**  
17

18 **Q. Does your silence on any of the issues, matters or findings addressed in the testimony**  
19 **of any of the witnesses for the Company constitute your acceptance of their positions**  
20 **on such issues, matters or findings?**

21 **A. No. Staff limited its discussion to the specific issues outlined above. Staff's lack of**  
22 **response to any issue in this proceeding should not be construed as agreement with the**  
23 **Company's position in its Rebuttal Testimony; rather, where there is no response Staff**  
24 **relies on its original Direct Testimony.**  
25

---

<sup>2</sup> See page 28, line 4 rebuttal testimony of Company witness Mr. Reiker.

<sup>3</sup> See page 30, line 10 rebuttal testimony of Company witness Mr. Reiker.

- 1    **Q.    Does this conclude your Surrebuttal Testimony?**
- 2    **A.    Yes, it does.**

# **ATTACHMENT A**

# The Distribution System Improvement Charge: A Rip-Off For Consumers

Fact Sheet • October 2011

Investor owned water utility companies are pushing unreasonable rate schemes on consumers across the country. These schemes involve special surcharges that automatically increase water bills without a full public review, so that private utility companies can more quickly make a return on certain water distribution projects and ensure their long-term profitability.<sup>1</sup> The companies are essentially trying to boost their earnings and shed regulatory oversight that protects consumers.

Although the scheme goes by different names in different states, it is most commonly referred to as a Distribution System Improvement Charge (DSIC).<sup>2</sup> This innocuous-sounding name obscures the real objective: to boost and ensure corporate profits by shifting risks to the public and bypassing standard consumer protections. (Community activists fighting this scheme have noted that a more fitting title would be a Reduction in Public Oversight For Financing, or RIPOFF.) In the states where it is allowed, it is a boon for the private water industry that comes at the expense of the public.

## Avoided Public Oversight

The DSIC scheme allows investor owned water utilities to increase customer bills without the standard regulatory process that protects the public from the exploitative prices and unfair practices possible under private monopolies.<sup>3</sup> In most states, a public utility commission oversees the finances and approves the rates of investor owned water utilities to prevent the companies from abusing their monopoly power.<sup>4</sup> By avoiding full regulatory scrutiny, surcharge schemes can lead to unwarranted profits,<sup>5</sup> as well as skewed investment decisions. They incentivize certain projects at the expense of other, possibly more prudent, ones,<sup>6</sup> and can compel companies to overinvest to maximize their financial benefit from the scheme.<sup>7</sup>

David Sade, West Virginia's deputy consumer advocate, said that allowing such a scheme would "remove one of the most important counterbalances to the inclinations of monopoly utilities to overbuild, or 'gold plate' their systems." Taking time to conduct a full financial review, Sade explained, "serves to encourage monopoly utilities to engage in prudent investment decisions and operate more

efficiently."<sup>8</sup> DSIC schemes bypass this necessary public oversight.

## Automatic Rate Increases

With the DSIC scheme, investor owned water utilities can automatically increase customer bills up to a certain percentage — from 3 percent to 10 percent, depending on the state<sup>9</sup> — after repairing or replacing water pipelines. Then, when private water utilities want a larger increase, they follow the normal procedures and file a rate case.<sup>10</sup> The largest investor owned water utilities typically file for rate increase every two years,<sup>11</sup> whether or not they have imposed surcharges.<sup>12</sup> When they do, they roll any existing surcharges into their base rates and reset the surcharge to zero.<sup>13</sup> This obscures the long-term consumer cost of the mechanism. Over time, the rolled-in surcharges can add up to a considerable premium on customer bills.

For example, infrastructure surcharges added \$80 million to Aqua Pennsylvania's total authorized revenues between 1997 — when the scheme went into effect — and mid-2010 (see graph). The company received, on average, only

*"[I]t is inappropriate to tilt the regulatory balance against consumers and shift business risk away from water companies simply for the purpose of creating an incentive for these companies to fulfill their basic obligation to provide safe and adequate water service."*

— from the National Association of State Utility Consumer Advocates' resolution against automatic infrastructure surcharges<sup>20</sup>

about 3 percent of its actual revenue from current surcharges in any given year. However, because the surcharges were rolled into base rates every two years, the cumulative effect of these surcharges is significant. Surcharges accounted for about 36 percent of the total increase in the company's authorized revenues from 1997 to 2010. As of mid-2010, about one fifth of its annual operating revenue could be traced back to their surcharge scheme.<sup>14</sup> This scheme worked to ensure the company's long-term profitability at the expenses of consumers.

## Inflated Water Bills

The DSIC scheme can overcharge consumers. The surcharge is based on a limited view of utility finances. It increases customer bills to cover the cost and corporate profits associated with certain projects without accounting for and offsetting any decreases in operating expenses that result from those projects. Rehabilitating water pipelines, for example, reduces main breaks, water loss and related costs.<sup>15</sup>

Surcharge schemes inflate a company's allowed return on equity — its profit — by reducing regulatory lag,<sup>16</sup> which is the time between when a corporation makes an investment and when it can start making a return on that investment. Regulators set a utility's authorized return on equity to compensate it for the risks associated with lag, but when surcharges cut lag time, there is not a corresponding decrease in the allowed return.<sup>17</sup> That means consumers continue to pay for business risks that the surcharge removes.

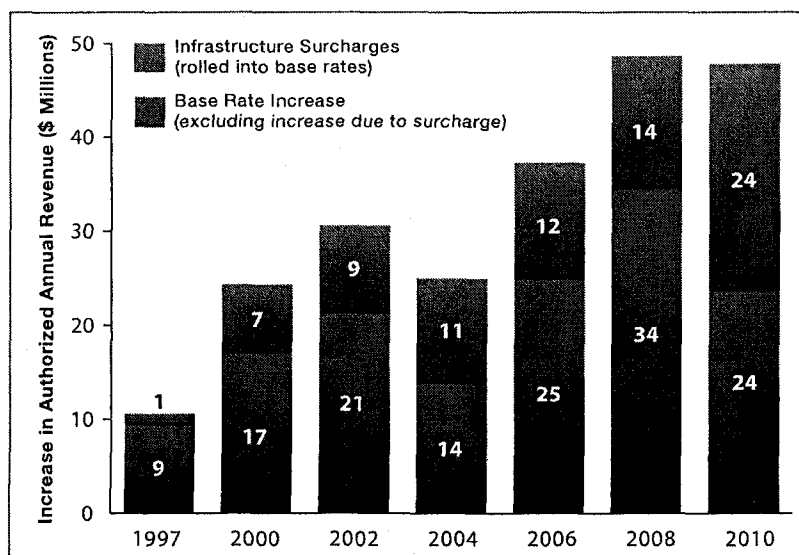
Calculations of infrastructure surcharges also typically overestimate the cost of financing projects at the expense of consumers. These calculations are based on the cost of long-term debt, even though water utilities tend to use cheaper short-term debt to pay for the types of projects funded by the surcharge.<sup>18</sup>

## Unnecessary Consumer Burden

The DSIC scheme puts an unjustified financial burden on consumers. Water corporations claim that it is necessary for improving water systems, but as New Jersey's Division of Rate Counsel said, "This argument for an incentive is disingenuous because a utility should not need an extra incentive to fulfill its obligations to provide safe, adequate, and proper service to New Jersey ratepayers."<sup>19</sup>

In other words, the DSIC is an unnecessary special corporate perk that rewards investor owned water utilities for making improvements that they should be making anyway. If the corporations cannot meet their obligations to provide safe and sound water service using standard rate practices, then they should get out of the water business.

## Aqua Pennsylvania's Rate Increase History: How Infrastructure Surcharges Have Inflated Rates



Since the implementation of the infrastructure surcharge in 1997 through mid-2010, Aqua Pennsylvania's authorized revenue has increased by a total of \$224 million, \$80 million of which is from infrastructure surcharges.<sup>14</sup>

## The Private Water Industry's "Major Coup"

An industry analyst has called legislative action allowing a DSIC scheme a "major coup,"<sup>21</sup> and another has referred to infrastructure surcharges as "the holy grail" for investor owned water utilities.<sup>22</sup>

Nick DeBenedictis, CEO of Aqua America, attributed his company's stable earnings to infrastructure surcharges,<sup>23</sup> and in 2011, the company focused 44 percent of its planned capital investments on projects covered by them.<sup>24</sup> American Water, another investor owned water utility, sees the surcharge mechanism as part of its strategy to "ensure" long-term profitability.<sup>25</sup> The company expects to eventually recover one-fifth of its capital investments through such schemes. Reducing regulatory lag "boosts the timeliness of earnings," CEO Jeff Sterba explained to Global Water Intelligence. "That's why we're focused on the development of a DSIC-like distribution recovery mechanism in New Jersey."<sup>26</sup>

To date, eight states — Connecticut, Delaware, Illinois, Indiana, Missouri, New York, Ohio and Pennsylvania — permit the use of infrastructure surcharges, and two states — California and New Hampshire — have pilot programs. The industry is aggressively pushing regulators and legislators in other states, particularly New Jersey, to follow suit.

## Stop the Rip-Off

State legislators and regulators should prevent this consumer rip-off. Certainly we must invest in our water distribution systems, but infrastructure surcharges are a false solution



to our infrastructure needs. Infrastructure surcharges are merely moneymaking schemes for private water companies and their Wall Street investors without any consumer benefit. They are clearly not in the public interest. Everyone depends on safe and high-quality water, and it is essential that this shared public resource be regulated for the public good rather than private gain.

## Endnotes

- 1 Tracy, Ryan. "Water utility seeks automatic rate increases." *The Times of Trenton*. May 2, 2009; "American Water unveils ROE strategy." *Global Water Intelligence*, vol. 11, iss. 5. May 2010 at 8; National Association of Water Companies. [Website]. "New Jersey Chapter." Available at <http://www.nawc.org/membership/chapters-and-related-groups/new-jersey.aspx>, Accessed August 29, 2011; National Association of Water Companies. [Website]. "Indiana Chapter." Available at <http://www.nawc.org/membership/chapters-and-related-groups/indiana.aspx>; Accessed August 29, 2011; National Association of Water Companies. "Summary Report: Water Policy Forum For State Public Utility Commission Staff." December 2010 at 36 to 39.
- 2 Stanford, Melissa J. The National Regulatory Research Institute. "Surcharges, Adjustment Clauses and Other Cost Recovery Mechanisms." August 17, 2006 at 2 to 3; National Association of Water Companies New Jersey Chapter. "Testimony of National Association of Water Companies New Jersey Chapter in New Jersey BPU Stakeholder Proceeding – Docket No. WO10090655." December 29, 2010 at Exhibit F.
- 3 Public Service Commission of West Virginia. "Staff Initial Brief." Case No. 10-0920-W-42T West Virginia-American Water. January 28, 2011 at 85 to 86.
- 4 "State Regulators Play a Role in Privatization." *Water Sense*, vol. 3, iss. 3. Summer 1997 at 7 to 8.
- 5 Henkes, Robert J. "Direct Testimony." Before the State of New Jersey Board of Public Utilities. (WO08050358). *The Petition of New Jersey American Water for Authorization to Implement A Distribution System Improvement Charge*. January 9, 2009 at 7; New Jersey Division of Rate Counsel. "Re: In the Matter of the Petition of New Jersey American Water Company for Authorization to Implement a Distribution System Improvement Charge ('DSIC')." NJ Board of Public Utilities. (BPU Docket NO. WO08050358). April 17, 2009 at 14 to 15; New Jersey Division of Rate Counsel. "I/M/O The Possible Implementation of a Distribution System Improvement Charge (DSIC) for Water and Wastewater Utilities." NJ Board of Public Utilities. (BPU Docket No. WO10090655). April 4, 2011 at 5.
- 6 New Jersey Division of Rate Counsel. April 17, 2009 at 17 to 19; Woods, Howard. New Jersey Division of Rate Counsel. "Direct Testimony." Before the State of New Jersey Board of Public Utilities. (WO08050358). *The Petition of New Jersey American Water for Authorization to Implement A Distribution System Improvement Charge*. January 9, 2009 at 5.
- 7 Sade, David A. Consumer Advocate Division, West Virginia Public Service Commission. "Initial Brief of the Consumer Advocate Division." Case No. 10-0920-W-42T West Virginia-American Water. January 28, 2011 at 49.
- 8 *Ibid.* at 49.
- 9 National Association of Water Companies New Jersey Chapter. December 29, 2010 at Exhibit F; Lynch, Walter. American Water. "The Benefits of Infrastructure Replacement Surcharges." Presented at NARUC 120th Annual Convention, November 17, 2008 at 11 to 12 and 20.
- 10 American Water Company. [White paper.] "Innovative Solutions Within the Water Industry: Infrastructure Surcharges." May 2009 at 1 to 2; Lynch, Walter. American Water. "The Benefits of Infrastructure Replacement Surcharges." Presented at NARUC 120th Annual Convention, November 17, 2008 at 21.
- 11 American Water. Presentation. Institutional Investor Meetings. April 2011 at 21; DeBenedictis, Nick. Aqua America. Transcript of Presentation at A.G. Edwards Mid-Cap Utilities Conference. *Fair Disclosure Wire*. June 13, 2007; New Jersey Division of Rate Counsel. "I/M/O The Possible Implementation of a Distribution System Improvement Charge (DSIC) for Water and Wastewater Utilities." New Jersey Board of Public Utilities. (BPU Docket No. WO10090655). December 30, 2010 at 14.
- 12 Sade, 2011 at 52 to 53; Woods, 2009 at 18 to 19.
- 13 American Water Company, May 2009 at 1 to 2.
- 14 Food & Water Watch calculations based on: Delaware County Industrial Development Authority, Water Facilities Revenue Bonds (Philadelphia Suburban Water Company Project), Series of 1999. September 29, 1999 at A-11 and A-21; Delaware County Industrial Development Authority, Water Facilities Revenue Bonds (Philadelphia Suburban Water Company Project), Series of 2001. October 23, 2001 at A-17 and Appendix B, p. 18; Delaware County Industrial Development Authority, Water Facilities Revenue Bonds (Aqua Pennsylvania, Inc. Project), Series A of 2005 and Water Facilities Revenue Refunding Bonds (Aqua Pennsylvania Inc. Project), Series B of 2005. May 10, 2005 at Appendix A, pp. 5 and 9;

## Origins: "The Nick DeBenedictis Bill"

Pennsylvania was the first state in the country to allow water infrastructure surcharges. In the mid-nineties, during the final hour of a state legislative session, Pennsylvania lawmakers passed a law — tagged onto a piece of legislation that restricted inmate phone calls — that authorized a Distribution System Improvement Charge. The measure was dubbed "the Nick DeBenedictis bill" after the head of the company now called Aqua America. DeBenedictis' company, along with the Pennsylvanian arm of American Water, devised the scheme, and several state politicians credited his lobbying efforts and campaign contributions with the bill's passage. The scheme went into effect at the beginning of 1997.<sup>27</sup>

- Pennsylvania Economic Development Financing Authority, Water Facilities Revenue Bonds (Aqua Pennsylvania, Inc. Project), Series A of 2008. December 4, 2008 at A-6, A-11 and A-12; Aqua Pennsylvania, Inc. "Consolidated Financial Statements as of and for the years ended December 31, 2010 and 2009." April 21, 2011 at Description of Aqua Pennsylvania, Inc. pp. 6 and 13.
- 15 Public Service Commission of West Virginia. January 28, 2011 at 82 to 83; Woods, 2009 at 14 to 16.
  - 16 Aqua America, Inc. U.S. Securities and Exchange Commission. Form 10-K. February 25, 2011 at 9; New Jersey Division of Rate Counsel. December 30, 2010 at 10; Henkes, 2009 at 8 and 17; Sade, 2011 at 51; Hempling, Scott and Scott H Strauss. National Regulatory Research Institute. "Pre-Approval Commitments: When and Under What Conditions Should Regulators Commit Ratepayer Dollars to Utility-Proposed Capital Projects." (08-12). November 2008 at 22.
  - 17 Hardy, David Lott. Indiana Utility Regulatory Commission. "Automatic Adjustment Clauses (Trackers) for the Energy & Water Industries." Report to the Regulatory Flexibility Committee of the Indiana General Assembly. September 12, 2007 at 6; National Association of Water Companies New Jersey Chapter, December 29, 2010 at 7 and Exhibit F.
  - 18 Public Service Commission of West Virginia. "Staff Initial Brief." Case No. 10-0920-W-42T West Virginia-American Water. January 28, 2011 at 83 to 84.
  - 19 New Jersey Division of Rate Counsel. April 4, 2011 at 4.
  - 20 National Association of State Utility Consumer Advocates. Resolution. "Discouraging State Regulatory Commissions from Adopting Automatic Adjustment Charges for Water Company Infrastructure Costs." June 1999.
  - 21 Zausner, Robert and Rich Heidorn Jr. "How 'Nick's Bill' floated through and allowed hikes in water rates." *The Philadelphia Inquirer*. May 18, 1997.
  - 22 Steinberg, Don. "The water-supply cowboy; He corralled the largest U.S.-based publicly traded water company." *The Philadelphia Inquirer*. August 31, 2003.
  - 23 DeBenedictis, Nick. Aqua America. Transcript of Presentation at Gabelli & Company, Inc. Best Ideas Conference. *Fair Disclosure Wire*. December 2, 2010.
  - 24 Aqua America, Inc. "2010 Annual Report." March 11, 2011 at 2010 Financial Data, p. 13.
  - 25 American Water Works Company, Inc. U.S. Securities and Exchange Commission. Form 10-K. February 25, 2011 at 15.
  - 26 "Operating assets on a whole new level." *Global Water Intelligence*, vol. 12, iss. 3. March 2011 at 8 to 9.
  - 27 Zausner and Heidorn, 1997.

### For more information:

web: [www.foodandwaterwatch.org](http://www.foodandwaterwatch.org)

email: [info@fwwatch.org](mailto:info@fwwatch.org)

phone: (202) 683-2500 (DC) • (415) 293-9900 (CA)

Copyright © October 2011 Food & Water Watch



## **ATTACHMENT B**

## Jeffery Michlik

---

From: Katrin Stukov  
Sent: Wednesday, December 07, 2011 3:36 PM  
To: Jeffery Michlik  
Subject: FW: Follow-up items - Miami water system

FYI

-----Original Message-----

From: Joe Harris [mailto:jharris@azwater.com]  
Sent: Thursday, November 24, 2011 7:48 AM  
To: Katrin Stukov  
Subject: FW: Follow-up items - Miami water system

Katrin, we've been having some problems with our email system. Hopefully, you'll get this one.

Joe

---

From: Fred Schneider  
Sent: Wednesday, November 23, 2011 10:03 AM  
To: Katrin Stukov  
Cc: Joe Harris  
Subject: Follow-up items - Miami water system

Katrin,  
After our site visit to Miami, there were four things that you wanted me to follow-up on.

1. Well No. 8 -
  - o Out of Service - June 2008
  - o Retired - Well produced 24 gallons per minute. The well should have been retired in 2008. According to the Company's records, it has not been retired.
2. Well No. 17 -
  - o Out of Service - Pump and motor failed August 2008
  - o Well pump and motor replacement is out to bid. The replacement pump and motor will be awarded to the contractor January 2012 as part of the Company's 2012 budget.
3. Well No. 22 -
  - o Out of Service - Pump and motor failed January 2011
  - o Retired - Well produced 10 gallons per minute and the well has been retired and will be reflected as such in the next Eastern Group rate case.
4. Well No. 25 -
  - o Out of Service - Pump and motor failed March 2010
  - o Well pump and motor replacement is out to bid. The replacement pump and motor will be awarded to the contractor January 2012 as part of the Company's 2012 budget.

# **ATTACHMENT C**

COMMISSIONERS  
GARY PIERCE - Chairman  
BOB STUMP  
SANDRA D. KENNEDY  
PAUL NEWMAN  
BRENDA BURNS



ERNEST G. JOHNSON  
Executive Director

ARIZONA CORPORATION COMMISSION

January 4, 2012

Robert W. Geake, Vice President &  
General Counsel  
Arizona Water Company  
3805 North Black Canyon Highway  
Phoenix, Arizona 85015-5351

Steven A. Hirsch, Esq.  
Stanley B. Lutz, Esq.  
BRYAN CAVE, LLP  
Two North Central Avenue, Suite 2200  
Phoenix, Arizona 85004

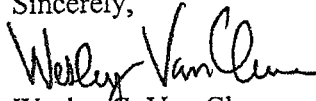
Re: Staff's **Second** Set of Data Responses to Arizona Water Company  
Docket No. W-01445A-10-0517

Dear Mr. Geake and Mr. Hirsch:

Attached are Responses to Arizona Water Company's Second Set of Data Requests to Staff of the Arizona Corporation Commission.

Please contact me if you have any questions at (602) 542-3402.

Sincerely,

  
Wesley C. Van Cleve  
Attorney, Legal Division

WCVC:rbo  
Atts.  
cc: Nancy Scott  
Jeffrey Michlik

ARIZONA CORPORATION COMMISSION  
STAFF'S SECOND SET OF RESPONSES TO  
ARIZONA WATER COMPANY'S SECOND SET OF DATA REQUESTS TO STAFF  
DOCKET NO. W-01445A-10-0517

JANUARY 4, 2012

Data Request: AWC 2.1

Q. On page 21, lines 12-22 of Mr. Michlik's direct testimony, he testifies concerning the alleged "general practice of Staff" and refers to a meeting with Applicant prior to filing this matter where sufficiency issues were discussed. With regard to this testimony, please provide the following:

- a. The specific "general practice" of Staff referred to in the testimony;
- b. Any written policies or procedures of Staff or the Commission relating or referring to such "general practice";
- c. Any governing rule, regulation or statute supporting or addressing such "general practice" and
- d. Any notice that has been provided to Applicant or similarly-situated utilities of such a "general practice."

**RESPONSE:**

- a. As stated on page 21 of Mr. Michlik's direct testimony, lines 14-16, Staff's general practice is "to require a Company to utilize a test year that ideally includes twelve months of actual data with the most current rate in effect; but Staff has found cases sufficient with less."
- b. Staff is not aware of any such written policies or procedures. However, in Mr. Michlik's five plus years at the Commission, it has been the practice of Staff to require a test year with no less than six months of actual data with the most current rates in effect. Further, while Staff may not have a written policy, this practice is supported by a number of authoritative references consistently used by Staff, including: American Water Works Association, Principles of Water Rates, Fees, and Charges, Manual of Water Supply Practices, definition of a historical test year; Charles F. Phillips, Jr., The Regulation of Public Utilities: Theory and Practice, selection of a test year
- c. Although not an attorney, it is Mr. Michlik's lay understanding that the following rulings support such a general practice: A.A.C. R14-2-103(A)(3) (i), (p); and Ariz. Corp. Comm'n v. Ariz. Pub. Serv., 113 Ariz. 368, 370-71, 555 P.2d 326, 328-29 (1976). (For additional explanation, see Staff's Response to Arizona Water Company's Motion for Procedural Order Regarding Sufficiency of Application, filed in this docket on Feb. 23, 2011.
- d. Since the inception of the current version of the rate case management rule (1992), Staff has generally not found a rate case application sufficient with less than six months of actual test year data with current rates in effect. This in and of itself provides strong notice to any and all utilities of Staff's general practice, particularly to those very large utilities like the Company which conduct business at the Commission on an ongoing basis and follow fairly closely the views and practices of the Commission and its Staff. More specifically, this issue was addressed recently in Docket No. E-01345A-08-0172 for Arizona Public Service and Docket No. G-04204A-08-0105 for UNS Gas.

RESPONDENT: Jeffrey Michlik

ARIZONA CORPORATION COMMISSION  
STAFF'S SECOND SET OF RESPONSES TO  
ARIZONA WATER COMPANY'S SECOND SET OF DATA REQUESTS TO STAFF  
DOCKET NO. W-01445A-10-0517

JANUARY 4, 2012

---

Data Request: AWC 2.2

Q. On page 22, lines 23-26 of Mr. Michlik's direct testimony, he testifies concerning Staff's conclusion that the Company should not be entitled to recover any of its expenses regarding the filing of its amended application. With regard to this testimony, please provide the following:

- a. The amount or a description of the nature of the specific rate case expenses that Staff contends should be excluded from recovery;
- b. The bases for Staffs calculation of the amount identified in response to 2(a), above; and
- c. All basis, support or justification for Staffs belief as expressed in Mr. Michlik's referenced testimony.

**RESPONSE:**

- a. Staff's calculation is based on the change between the estimated rate case expense in the original application and the amended filing.
- b. See a.
- c. See the testimony of Mr. Michlik.

**RESPONDENT: Jeffrey Michlik**

ARIZONA CORPORATION COMMISSION  
STAFF'S SECOND SET OF RESPONSES TO  
ARIZONA WATER COMPANY'S SECOND SET OF DATA REQUESTS TO STAFF  
DOCKET NO. W-01445A-10-0517

JANUARY 4, 2012

---

Data Request: AWC 2.3

Q. On page 25, lines 7-11 of Mr. Michlik's direct testimony, he testifies concerning consolidation and rate case expense. With regard to this testimony, please provide the following:

- a. The place, date and time of the referenced discussion;
- b. The names of each person who participated in, attended or overheard the discussion;
- c. The exact content of the message communicated in the discussion, broken out by which person said what; and
- d. A copy of all notes, memoranda, and summaries of such discussions made by or in the possession of each person identified in 3(c), above.

**RESPONSE:**

- a. This meeting was convened at the request of the Company. It was held December 22, 2010, at 9:00 a.m., in the Director's Office Conference Room at the Commission's Offices at 1200 W Washington, Phoenix, AZ.
- b. To the best of Staff's knowledge and recollection, in addition to the representatives from the Company, the persons present from Staff were Steve Olea, Eli Abinah, Nancy Scott, Gordon Fox, Darron Carlson, Del Smith, and Connie Walczak.
- c. To the best of Staff's knowledge and recollection, the Company representatives made the following statements to Staff: 1) a rate application for the western group would be filed by the end of the year; 2) the consolidation study was previously filed in September; 3) the test year would be 2009 with a pro forma adjustment for new rates; 4) the application would include an early version of the water loss report due next year; 5) the application would include a DSIC study and proposal for a DSIC for certain systems; 6) the application would include a request for continuation of the ACRM and a request for a HUF tariff as the Company plans to construct new water treatment facility; 7) there would be no new adjustors proposed except for a MAP surcharge; 8) the Company would be using the same cost of service study as in the previous rate case; 9) there would be a request to include PTY plant; and 10) the Company further intends to file a rate application for each of its groups, in succession, and so there may be some overlap in the processing.

In addition to asking questions, to which some of the statements above were responses, Staff (Mr. Olea) stated: 1) due to limited resources, to process more efficiently, Staff would prefer that rate applications for all systems be filed together; however, it is ultimately the Company's decision; 2) if the Company were to file the application using a 2009 test year with no data under the current rates, Staff would almost certainly find it deficient; and 3) the Company should delay filing a rate application and use a 2010 test year that incorporates at least six months data under the new rates.



ARIZONA CORPORATION COMMISSION  
STAFF'S SECOND SET OF RESPONSES TO  
ARIZONA WATER COMPANY'S SECOND SET OF DATA REQUESTS TO STAFF  
DOCKET NO. W-01445A-10-0517

JANUARY 4, 2012

---

- d. Copies of any notes retained by Staff participants are attached. Further references to this meeting include:

"Consistent with the preliminary opinion expressed in our meeting with you on December 22, 2010, Staff is specifically concerned that the test year provided in support of the application does not meet the requirements of A.A.C. R14-2-103(A)(3)(p)." Letter of Deficiency issued Jan. 7, 2011.

"I guess the frustration that Staff has with this case is -- and again, unfortunately with the legal department, we tend not to get involved in cases during the sufficiency phases -- but it's my understanding that there was a meeting between the Utilities Division and the company prior to it filing its rate case where the company had indicated that it was going to be filing a rate case using this type of test year. And it's my understanding that the discussions that took place in that meeting were that they should not file the application; they should wait until they have some amount of actual, current rates in effect during the test year and file it at that point. And despite that meeting with the Utilities Division, the company at some point after that meeting went ahead and filed the application." Statement by Staff Attorney Wesley Van Cleve, Proc. Conf., Mar. 24, 2011, Tr. at 8:10-25.

RESPONDENT: Nancy Scott

12/22/10

AZ Water

Western Group

filed by end of year

consolidation study filed Sep

TY - 2009 (pro forma new rates)

early version of water loss rpt (revised next yr)

DSIC study - propose for certain syst Coolidge

ACRM - continuation

HUFS - plan to construct new water svc facility

no adjustors to MAP surcharge

Same COSS as previous

Each group rate case filed in succession

may be some overlap

decline sales

increase O&M

increase investment

25%

ROE

PTY plant - yes

12/22 Meeting - AWC - <sup>DISCUSS</sup> <sup>NXT WTR RATE CASE</sup> Total Co. 8/25/09  
W/ Ty 2009

Bill Garfield  
Joel Pickett  
Fred. (not sure)

### Consolidation

Western Group (ONLY)

CG

Coolidge

AJO

White Tank

(Bisbee)

- test yr 09

- 71845 cond. = u. water loss

- ACRM - CG - C + Pinal Valley

planned fac.

- offsite fac. fees

\*\* NOT SKg adjustors \*\*

- \* P will need 6 mos of new rates in Ty as it stands they will have -0-
- \* Joel is projecting the rates

\* NOT even thinking about statewide Consolidation of Septem

- \* Reasons for dec.
- \* Declining Sales
- \* O+M Costs
- \* dec. investment
- \* ROE component

**ARIZONA CORPORATION COMMISSION  
STAFF'S SECOND SET OF RESPONSES TO  
ARIZONA WATER COMPANY'S SECOND SET OF DATA REQUESTS TO STAFF  
DOCKET NO. W-01445A-10-0517**

**JANUARY 4, 2012**

---

Data Request: AWC 2.4

Q. Please provide a citation to, or a copy of, any Commission rule, regulation, written policy or decision that prescribes or requires that a rate application must include a minimum of six months of revenues under current rates as a condition of sufficiency under Rule 14-2-103.

**RESPONSE:**

See the responses to 2.1 (b) and (c) above.

**RESPONDENT:**     Nancy Scott

ARIZONA CORPORATION COMMISSION  
STAFF'S SECOND SET OF RESPONSES TO  
ARIZONA WATER COMPANY'S SECOND SET OF DATA REQUESTS TO STAFF  
DOCKET NO. W-01445A-10-0517

JANUARY 4, 2012

---

Data Request: AWC 2.5

Q. Please confirm or deny that, in the Company's last rate case, Docket No. W-01445A-08-0440:

- a. The Company did not request an amount of rate case expense specific to its Western Group systems.
- b. In Decision No. 71845, the Commission approved an amount of rate case expense for the total Company.

**RESPONSE:**

- a. **Confirm. However, Staff assumed the Western Group, along with the Northern Group, and Eastern Group was included in the \$500,000 that the Company requested in its last rate case.**
- b. **Confirm. However, Staff assumes that a portion of this amount included rate case expense associated with the Western Group.**

**RESPONDENT:     Jeffrey Michlik**

ARIZONA CORPORATION COMMISSION  
STAFF'S SECOND SET OF RESPONSES TO  
ARIZONA WATER COMPANY'S SECOND SET OF DATA REQUESTS TO STAFF  
DOCKET NO. W-01445A-10-0517

JANUARY 4, 2012

---

Data Request: AWC 2.6

Q. Please confirm or deny that that Company's use of a calendar year 2010 test year in its amended application was part of a settlement with Staff following the opening of the oral argument of the Company's motion identified on page 22, line 1 of Mr. Michlik's direct testimony, at the suggestion of ALJ Sarah Harpring.

**RESPONSE:** Deny. Staff did not enter into any formal settlement negotiations with the Company. At the referenced procedural conference, Judge Harpring indicated that her opinion at that time was that, unless the parties first reached a resolution of the dispute, she would issue a Recommended Opinion and Order for the Commission's consideration at a regular open meeting, which would entail additional delay in the case. Proc. Conf., Mar. 24, 2011, Tr. at 10:7-12. Judge Harpring then provided the parties an opportunity to discuss a resolution in order to avoid such delay. Id. at 12:16-14:7. Subsequent to the discussion, the Company agreed to resubmit the application incorporating six months of actual data under current rates. Id. at 16:13-19. Such a revised filing would be consistent not only with Staff's general practice but with Staff's position as stated to the Company in the meeting prior to the filing of the deficient application. To the extent Staff did enter into some sort of an informal understanding with the Company it was only to process the Company's rate application(s) as Staff is required to do pursuant to the Arizona Administrative Code, the Arizona Constitution, and Staff's general practice.

**RESPONDENT:** Nancy Scott

**ARIZONA CORPORATION COMMISSION  
STAFF'S SECOND SET OF RESPONSES TO  
ARIZONA WATER COMPANY'S SECOND SET OF DATA REQUESTS TO STAFF  
DOCKET NO. W-01445A-10-0517**

**JANUARY 4, 2012**

---

Data Request: AWC 2.7

Q. Please confirm or deny that the Company:

a. Requested \$500,000 in rate case expense in its rate case in Docket No. W-0 1 445A-08-0440.

b. Did not request \$176,350 (or any other specific amount) of rate case expense for its Western Group in Docket No. W-01445A-08-0440.

**RESPONSE:**

a.     **Confirm. See response to 2.5.**

b.     **Confirm. See response to 2.5.**

**RESPONDENT:     Jeffrey Michlik**

**ARIZONA CORPORATION COMMISSION  
STAFF'S SECOND SET OF RESPONSES TO  
ARIZONA WATER COMPANY'S SECOND SET OF DATA REQUESTS TO STAFF  
DOCKET NO. W-01445A-10-0517**

**JANUARY 4, 2012**

---

Data Request: AWC 2.8

Q. Please provide a copy, and identify the preparer(s) of any Staff notes, memoranda or work papers or testimony, that form the bases for, or present a contention that rate consolidation:

- a. Is beneficial only to total Company rate applications;
- b. Is beneficial only to Company group rate applications; and
- c. Is limited to total Company rate applications only or to Company rate applications for groups only.

**RESPONSE:**

- a. Staff is not sure where this reference is from and therefore does not have any of the documents the Company is requesting. Staff supports the Company pursuing full consolidation in gradual steps.
- b. See a.
- c. See a.

**RESPONDENT:** Jeffrey Michlik



ARIZONA CORPORATION COMMISSION  
STAFF'S SECOND SET OF RESPONSES TO  
ARIZONA WATER COMPANY'S SECOND SET OF DATA REQUESTS TO STAFF  
DOCKET NO. W-01445A-10-0517

JANUARY 4, 2012

---

Data Request: AWC 2.9

Q. Concerning Staff Witness Jeffrey Michlik's testimony and recommendation concerning the cost of capital in the Company's Western Group case, please provide:

- a. A copy of any document referenced in the testimony or relied on in preparing the testimony, other than documents provided by Arizona Water Company;
- b. A copy of all reports, studies, work papers, and other supporting documents that relate to the testimony;
- c. An electronic copy in Microsoft Excel format with all formulae intact, of all work papers provided in response to subpart b. above.

**RESPONSE:**

- a. A copy of the cases referenced in Mr. Michlik's testimony can be located through e-Docket on the Corporation Commission's website.
- b. See a.
- c. See a.

**RESPONSE:** Jeffrey Michlik

Arizona Water Company - Supersition (Apache Junction, Superior, Miami)  
Docket No. W-01445A-11-0310  
Test Year ended December 31, 2010

SURREBUTTAL TESTIMONY OF Jeffrey M. Michlik

TABLE OF CONTENTS TO SCHEDULES

<u>SCH #</u>	<u>TITLE</u>
JMM-1	REVENUE REQUIREMENT
JMM-2	GROSS REVENUE CONVERSION FACTOR
JMM-3	RATE BASE - ORIGINAL COSTS
JMM-4	SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS
JMM-5	ORIGINAL COST RATE BASE ADJUSTMENT # 1 - OUT OF SERVICE PLANT AND RUCO RATE BASE ADJUSTMENT
JMM-6	ORIGINAL COST RATE BASE ADJUSTMENT # 2 - NOT USED
JMM-7	ORIGINAL COST RATE BASE ADJUSTMENT # 3 - CASH WORKING CAPITAL
JMM-8	OPERATING INCOME STATEMENT - ADJUSTED TEST YEAR AND STAFF RECOMMENDED
JMM-9	SUMMARY OF OPERATING INCOME STATEMENT ADJUSTMENTS - TEST YEAR
JMM-10	OPERATING INCOME ADJUSTMENT # 1 - REVERSE UNBILLED EXPENSES
JMM-11	OPERATING INCOME ADJUSTMENT # 2 - FLEET FUEL EXPENSE
JMM-12	OPERATING INCOME ADJUSTMENT # 3 - REMOVAL OF PROJECTED EXPENSES
JMM-13	OPERATING INCOME ADJUSTMENT # 4 - RUCO MISCELLANEOUS EXPENSES
JMM-14	OPERATING INCOME ADJUSTMENT # 5 - REMOVAL OF ADDITIONAL BMP EXPENSES
JMM-15	OPERATING INCOME ADJUSTMENT # 6 - RATE CASE EXPENSE
JMM-16	OPERATING INCOME ADJUSTMENT # 7 - DEPRECIATION EXPENSE
JMM-17	OPERATING INCOME ADJUSTMENT # 8 - INCOME TAX EXPENSE
JMM-18	OPERATING INCOME ADJUSTMENT # 9 - PROPERTY TAX EXPENSE

Arizona Water Company - Supersition (Apache Junction, Superior, Miami)  
Docket No. W-01445A-11-0310  
Test Year ended December 31, 2010

Surrebuttal Schedule JMM-1

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY FAIR VALUE	(B) STAFF FAIR VALUE
1	Adjusted Rate Base	\$ 50,574,693	\$ 50,120,955
2	Adjusted Operating Income (Loss)	\$ 2,562,892	\$ 2,855,949
3	Current Rate of Return (L2 / L1)	5.07%	5.70%
4	Required Rate of Return	9.72%	8.1%
5	Required Operating Income (L4 * L1)	\$ 4,914,647	\$ 4,059,797
6	Operating Income Deficiency (L5 - L2)	\$ 2,351,755	\$ 1,203,848
7	Gross Revenue Conversion Factor	1.6560	1.6590
8	Required Revenue Increase (L7 * L6)	\$ 3,894,582	<b>\$ 1,997,217</b>
9	Adjusted Test Year Revenue	\$ 15,056,166	\$ 15,056,166
10	Proposed Annual Revenue (L8 + L9)	\$ 18,950,748	\$ 17,053,383
11	Required Increase in Revenue (%)	25.87%	13.27%

References:

Column (A): Company Schedule A-1  
Column (B): Staff Schedules JMM-3 and JMM-7

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
<u>Calculation of Gross Revenue Conversion Factor</u>					
1	Revenue	100.0000%			
2	Uncollectible Factor (Line 11)	0.0000%			
3	Revenues (L1 - L2)	100.0000%			
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	39.7237%			
5	Subtotal (L3 - L4)	60.2763%			
6	Revenue Conversion Factor (L1 / L5)	1.659027			
<u>Calculation of Uncollectible Factor</u>					
7	Unity	100.0000%			
8	Combined Federal and State Tax Rate (Line 23)	38.5989%			
9	One Minus Combined Income Tax Rate (L7 - L8)	61.4011%			
10	Uncollectible Rate	0.0000%			
11	Uncollectible Factor (L9 * L10)	0.0000%			
<u>Calculation of Effective Tax Rate</u>					
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
13	Arizona State Income Tax Rate	6.9680%			
14	Federal Taxable Income (L12 - L13)	93.0320%			
15	Applicable Federal Income Tax Rate (Line 55)	34.0000%			
16	Effective Federal Income Tax Rate (L14 x L15)	31.6309%			
17	Combined Federal and State Income Tax Rate (L13 + L16)		38.5989%		
<u>Calculation of Effective Property Tax Factor</u>					
18	Unity	100.0000%			
19	Combined Federal and State Income Tax Rate (L17)	38.5989%			
20	One Minus Combined Income Tax Rate (L18-L19)	61.4011%			
21	Property Tax Factor (JMM-17, L27)	1.8320%			
22	Effective Property Tax Factor (L20*L21)		1.1248%		
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			39.7237%	
24	Required Operating Income (Schedule JMM-1, Line 5)	\$ 4,059,797			
25	Adjusted Test Year Operating Income (Loss)	2,855,949			
26	Required Increase in Operating Income (L24 - L25)		\$ 1,203,848		
27	Income Taxes on Recommended Revenue (Col. [E], L52)	\$ 1,512,373			
28	Income Taxes on Test Year Revenue (Col. [B], L52)	755,592			
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		756,781		
30	Recommended Revenue Requirement (Schedule JMM-1, Line 10)	\$ 17,053,383			
31	Uncollectible Rate (Line 10)	0.0000%			
32	Uncollectible Expense on Recommended Revenue (L30*L31)	\$ -			
33	Adjusted Test Year Uncollectible Expense	\$ -			
34	Required Increase in Revenue to Provide for Uncollectible Exp. (L32-L33)				
35	Property Tax with Recommended Revenue (JMM-17, Col B, L31)	\$ 864,054			
36	Property Tax on Test Year Revenue (JMM-17, Col A, L17)	827,466			
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		36,588		
38	Total Required Increase in Revenue (L26 + L29 + L34 + L37)		\$ 1,997,217		
<u>Calculation of Income Tax</u>					
39	Revenue (Schedule JMM-7, Col. [C], Line 5 & Sch. JMM-1, Col. [D] Line 10)	\$ 15,056,166	\$ 1,997,217	\$ 17,053,383	
40	Operating Expenses Excluding Income Taxes	\$ 11,444,625		\$ 11,481,213	
41	Synchronized Interest (L56)	\$ 1,653,992		\$ 1,653,992	
42	Arizona Taxable Income (L39 - L40 - L41)	\$ 1,957,550		\$ 3,918,179	
43	Arizona State Income Tax Rate	6.9680%		6.9680%	
44	Arizona Income Tax (L42 x L43)	\$ 136,402		\$ 273,019	
45	Federal Taxable Income (L42 - L44)	\$ 1,821,148		\$ 3,645,160	
46	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 34%	\$ 17,000		\$ 17,000	
47	Federal Tax on Second Income Bracket (\$51,001 - \$75,000) @ 34%	\$ 8,500		\$ 8,500	
48	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$ 8,500		\$ 8,500	
49	Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 34%	\$ 79,900		\$ 79,900	
50	Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	\$ 505,290		\$ 1,125,455	
51	Total Federal Income Tax	\$ 619,190		\$ 1,239,355	
52	Combined Federal and State Income Tax (L44 + L51)	\$ 755,592		\$ 1,512,373	
53	Applicable Federal Income Tax Rate [Col. [E], L51 - Col. [B], L51] / [Col. [E], L45 - Col. [B], L45]			34.0000%	
<u>Calculation of Interest Synchronization</u>					
54	Rate Base (Schedule JMM-3, Col. (C), Line 17)	\$ 50,120,955			
55	Weighted Average Cost of Debt	3.3%			
56	Synchronized Interest (L45 X L46)	\$ 1,653,992			

RATE BASE - ORIGINAL COST

LINE NO.		(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	Adj. No.	(C) STAFF AS ADJUSTED
1	Plant in Service	\$ 114,351,349	\$ (128,675)	1	\$ 114,222,674
2	Less: Accumulated Depreciation	27,844,496	-	1	27,844,496
3	Net Plant in Service	<u>\$ 86,506,853</u>	<u>\$ (128,675)</u>		<u>\$ 86,378,178</u>
4					
5	<u>LESS:</u>				
6					
7	Contributions in Aid of Construction (CIAC)	\$ 20,165,452	\$ -		\$ 20,165,452
8	Less: Accumulated Amortization	2,561,377	-		\$ 2,561,377
9	Net CIAC	<u>17,604,075</u>	<u>-</u>		<u>\$ 17,604,075</u>
10					
11	Advances in Aid of Construction (AIAC)	11,305,977	-		11,305,977
12					
13	Customer Deposits	322,847	-		322,847
14					
15	Deferred Income Tax Credits	7,267,953	-		7,267,953
16					
17					
18	<u>ADD:</u>				
19					
20					
21	Working Capital	1,016,691	(325,062)	2	691,629
22					
23	Deferred Regulatory Assets	(448,000)	-		(448,000)
24					
25					
26	<b>Original Cost Rate Base</b>	<u>\$ 50,574,693</u>	<u>\$ (453,738)</u>		<u>\$ 50,120,955</u>

References:

Column [A]: Company as Filed

Column [B]: Schedule JMM-4

Column [C]: Column (A) + Column (B)

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) ADJ #1 Out of Service Plant & RUCO Adjustment Ref: Sch JMM-5	(C) ADJ #2 Not Used Ref: Sch JMM-6	(D) ADJ #3 Cash Working Capital Ref: Sch JMM-7	(E) STAFF ADJUSTED
1		PLANT IN SERVICE:					
2	301	Organization Cost	187	-	-	-	187
3	302	Franchise Cost	6,869	-	-	-	6,869
4	303	Other Intangibles	7,940	-	-	-	7,940
5	310.1	Water Rights	793,568	-	-	-	793,568
6	310.3	Other Source of Supply Land	153,814	-	-	-	153,814
7	310.4	Wells - Other	1,526,600	-	-	-	1,526,600
8	314	Wells	6,673,678	(37,873)	-	-	6,635,805
9	320	Pumping Plant Land	18,910	-	-	-	18,910
10	321	Pumping Plant Structures & Improvements	293,831	(572)	-	-	293,259
11	325	Electric Pumping Equipment	9,822,543	26,039	-	-	9,848,582
12	328	Gas Engine Equipment	163	-	-	-	163
13	330	Water Treatment Plant - Land	811	-	-	-	811
14	331	Water Treatment Structures and Improvements	49,586	-	-	-	49,586
15	332	Water Treatment Equipment	10,270,259	(82,867)	-	-	10,187,393
16	340	Transmission and Distribution - Land	195,215	-	-	-	195,215
17	342	Storage Tanks	4,946,483	764	-	-	4,947,247
18	343	Transmission and Distribution Mains	53,647,804	(35,367)	-	-	53,612,436
19	344	Fire Sprinkler Taps	756,878	-	-	-	756,878
20	345	Services	13,475,428	-	-	-	13,475,428
21	346	Meters	2,027,498	-	-	-	2,027,498
22	348	Hydrants	3,697,873	-	-	-	3,697,873
23	389	General Plant Land	54,061	-	-	-	54,061
24	390	General Plant Structures	910,993	-	-	-	910,993
25	390.1	Leasehold Improvements	1,291,792	-	-	-	1,291,792
26	391	Office Furniture & Equipment	1,856,199	-	-	-	1,856,199
27	393	Warehouse Equipment	16,284	-	-	-	16,284
28	394	Tools, Shops, and Garage Equipment	531,220	(7,324)	-	-	523,896
29	395	Laboratory Equipment	87,830	-	-	-	87,830
30	396	Power Operated Equipment	44,523	-	-	-	44,523
31	397	Communications Equipment	1,094,113	8,525	-	-	1,102,638
32	398	Miscellaneous Equipment	98,397	-	-	-	98,397
33		Intentionally Left Blank	-	-	-	-	-
34			114,351,349	-	-	-	114,222,674
35			-	-	-	-	-
36		Total Plant in Service	\$ 114,351,349	\$ (128,676)	\$ -	\$ -	\$ 114,222,674
37							
38		Less: Accumulated Depreciation	27,844,496	-	-	-	27,844,496
39							
40		Net Plant in Service	\$ 86,506,853	\$ (128,676)	\$ -	\$ -	\$ 86,378,178
41							
42		LESS:					
43		Contributions in Aid of Construction (CIAC)	\$ 20,165,452	-	-	-	\$ 20,165,452
44		Less: Accumulated Amortization	2,561,377	-	-	-	2,561,377
45		Net CIAC (L25 - L26)	17,604,075	-	-	-	17,604,075
46		Advances in Aid of Construction (AIAC)	11,305,977	-	-	-	11,305,977
47		Customer Deposits	322,847	-	-	-	322,847
48		Deferred Income Taxes	7,267,953	-	-	-	7,267,953
49							
50							
51		ADD:					
52		Working Capital	1,016,691	-	-	(325,062)	691,629
53		Deferred Regulatory Assets	(448,000)	-	-	-	(448,000)
54							
55		Original Cost Rate Base	\$ 50,574,693	\$ (128,676)	\$ -	\$ (325,062)	\$ 50,120,955

RATE BASE ADJUSTMENT NO. 1 - OUT OF SERVICE PLANT AND RUCO RATE BASE ADJUSTMENT

LINE NO.	ACCT NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	314	Wells	\$ 6,673,678	\$ (37,873)	\$ 6,635,805
2	321	Pumping Plant Structures	293,831	(572)	293,259
3	325	Electric Pumping Equipment	9,822,543	(8,445)	9,814,098
4			<u>\$ 16,790,052</u>	<u>\$ (46,890)</u>	<u>\$ 16,743,162</u>
5					
6		Accumulated Depreciation	<u>\$ 27,844,496</u>	<u>\$ (46,890)</u>	<u>\$ 27,797,606</u>
7					
8		RUCO ADJUSTMENT			
9	325	Electric Pumping Equipment	\$ 9,822,543	\$ 34,484	\$ 9,857,027
10	332	Water Treatment Equipment	10,270,259	(82,867)	10,187,393
11	342	Storage Tanks	4,946,483.00	763.59	4,947,247
12	343	Transmission and Distribution Mains	53,647,804	(35,367)	53,612,436
13	397	Communications Equipment	1,094,113	(565)	1,093,548
14			<u>\$ 79,781,202</u>	<u>\$ (83,551)</u>	<u>\$ 79,697,651</u>
15					
16		Phoenix Meter Shop			
17	394	Tools, Shops, and Garage Equipment	\$ 531,220	\$ (7,324)	\$ 523,896
18	397	Communications Equipment	1,094,113	9,090	1,103,203
19			<u>\$ 1,625,333</u>	<u>\$ 1,766</u>	<u>\$ 1,627,099</u>

REFERENCES:

Column [A]: Company Filing

Column [B]: Testimony JMM

Column [C]: Column [A] + Column [B]

Arizona Water Company - Supersition (Apache Junction, Superior, Miami)  
Docket No. W-01445A-11-0310  
Test Year ended December 31, 2010

Surrebuttal Schedule JMM-6

RATE BASE ADJUSTMENT NO. 2 - NOT USED



RATE BASE ADJUSTMENT NO. 3 - CASH WORKING CAPITAL

LINE NO.	ACCT NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED	[D]	[E]	[F]
1	1	Working Capital	\$ 1,016,691	\$ (325,062)	\$ 691,629			
2								
3								
4								
5			Test Year					
6			Adjusted	Revenue	Expense	Net	Lead / Lag	Working Cash
7			Results			Lag Days	Factor	Requirement
8						[B - C]	[D + 365]	[A X E]
8		Staff's Calculation						
9		Purchased Power	\$ 1,425,047	29.53	30.87	(1.34)	(0.0037)	\$ (5,224)
10		Payroll	2,662,431	29.53	14.00	15.53	0.0426	113,296
11		Purchased Water	691,466	29.53	(40.09)	69.62	0.1907	131,894
12		Chemicals	130,705	29.53	(18.11)	47.64	0.1305	17,060
13		Property & Liability Insurance	158,734	29.53	(45.27)	74.80	0.2049	32,530
14		Workman's Compensation Insurance	36,305	29.53	(46.50)	76.03	0.2083	7,563
15		Health Insurance	481,608	29.53	(8.92)	38.45	0.1053	50,736
16		Other O&M (Excluding Rate Case Expense)	1,797,731	29.53	(9.27)	38.80	0.1063	191,111
17		Federal Income Taxes	1,239,355	29.53	37.00	(7.47)	(0.0205)	(25,358)
18		State Income Taxes	273,019	29.53	37.00	(7.47)	(0.0205)	(5,586)
19		FICA Taxes	199,553	29.53	14.00	15.53	0.0426	8,492
20		FUTA & SUTA Taxes	6,196	29.53	83.10	(53.57)	(0.1468)	(909)
21		Property Taxes	864,054	29.53	212.00	(182.47)	(0.4999)	(431,951)
22		Registration, Svc. Contracts, & Misc. Fees	153,893	29.53	(98.83)	128.36	0.3517	54,120
23		Retirement Annuities (401k)	246,884	29.53	34.72	(5.19)	(0.0142)	(3,509)
24								
25								
26			\$ 10,366,980					\$ 134,265
27		Subtotal						
28								
29		Interest Expense	1,692,249	29.53	91.25	(61.72)	(0.1691)	(286,143)
30		Cost of Equity	-	-	-	-	-	-
31								
32		Subtotal	\$ 1,692,249					\$ (286,143)
33								
34								
35		Total	12,059,230					\$ (151,878)
36								
37		Company Cash Working Capital						\$ 173,185
38								
39		Increase/(Decrease)						\$ (325,062)

REFERENCES:

Column [A]: Company Filing  
Column [B]: Direct Testimony JMM  
Column [C]: Column [A] + Column [B]

OPERATING INCOME STATEMENT - ADJUSTED TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY ADJUSTED TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF PROPOSED CHANGES	[E] STAFF RECOMMENDED
1	<u>OPERATING REVENUES:</u>					
2	Residential	\$ 11,436,591	\$ -	\$ 11,436,591	\$ 1,997,217	\$ 13,433,808
3	Commercial	2,606,553	-	2,606,553	-	2,606,553
4	Industrial	70,149	-	70,149	-	70,149
5	Private Fire Service	51,199	-	51,199	-	51,199
6	Other Water Revenues	166,218	-	166,218	-	166,218
7	Total Water Revenues	\$ 14,330,710	\$ -	\$ 14,330,710	\$ 1,997,217	\$ 16,327,927
8						
9	Miscellaneous	725,456.25	-	725,456.25	-	725,456
10	Total Operating Revenues	\$ 15,056,166	\$ -	\$ 15,056,166	\$ 1,997,217	\$ 17,053,383
11						
12	<u>OPERATING EXPENSES:</u>					
13	Source of Supply Expenses					
14	Purchased Water	\$ 691,466	\$ -	\$ 691,466	\$ -	\$ 691,466
15	Other	73,495	(608)	72,887	-	72,887
16	Pumping Expenses					
17	Purchased Power	1,424,839	208	1,425,047	-	1,425,047
18	Purchased Gas	-	-	-	-	-
19	Other	553,472	(16,525)	536,947	-	536,947
20	Water Treatment Expenses	597,301	(1,053)	596,249	-	596,249
21	Transmission and Distribution Expenses	1,742,369	(390,236)	1,352,133	-	1,352,133
22	Customer Accounting Expenses	1,182,195	(14,841)	1,167,354	-	1,167,354
23	Sales Expense	-	-	-	-	-
24	Administrative and General Expenses	2,090,357	(89,275)	2,001,082	-	2,001,082
25	Total Operation and Maintenance Expense	8,355,495	(512,330)	7,843,165	-	7,843,165
26						
27	Depreciation and Amortization Expenses	2,672,715	(69,207)	2,603,508	-	2,603,508
28						
29	Taxes					
30	Federal Income Taxes	448,513	170,678	619,190	620,164	1,239,355
31	State Income Taxes	98,803	37,599	136,402	136,617	273,019
32	Property Taxes	747,264	80,202	827,466	36,588	864,054
33	Other	170,486	-	170,486	-	170,486
34	Total Taxes	1,465,065	288,479	1,753,544	793,369	2,546,913
35		-	-	-	-	-
36		-	-	-	-	-
37	Total Operating Expenses	12,493,275	-	12,200,217	793,369	12,993,586
38						
39	Operating Income (Loss)	\$ 2,562,892	\$ 293,058	\$ 2,855,949	\$ 1,203,848	\$ 4,059,797

References:

Column (A): Company Schedule C-1  
Column (B): Schedule JMM-9  
Column (C): Column (A) + Column (B)  
Column (D): Schedules JMM-17 and JMM-18  
Column (E): Column (C) + Column (D)

LINE NO.	ACCT. NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) Reverse Unbilled Expenses ADJ #1	(C) Fleet Fuel Expense ADJ #2	(D) Removal of Pumping Transmission and Distribution Projection ADJ #3	(E) RUCO Miscellaneous Expense Adjustment ADJ #4	(F) Removal of BMP Expense ADJ #5	(G) Rate Case Expense ADJ #6	(H) Depreciation Expense ADJ #7	(I) Income Tax Expense ADJ #8	(J) Property Expense ADJ #9	(K) STAFF
OPERATING REVENUES:													
1		Residential	\$ 11,438,591	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
2		Commercial	2,606,553	-	-	-	-	-	-	-	-	-	
3		Industrial	70,149	-	-	-	-	-	-	-	-	-	
4		Private Fire Service	51,199	-	-	-	-	-	-	-	-	-	
5		Other Water Revenues	168,218	-	-	-	-	-	-	-	-	-	
6													
7		Total Water Revenues	\$ 14,330,710	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
8													
9		Miscellaneous	\$ 725,456	-	-	-	-	-	-	-	-	-	
10		Total Operating Revenues	\$ 15,056,166	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
11													
OPERATING EXPENSES:													
12		Source of Supply Expenses	\$ 691,466	-	-	-	-	-	-	-	-	-	
13		Purchased Water	73,495	(454)	(154)	-	-	-	-	-	-	-	
14													
15		Pumping Expenses	-	-	-	-	-	-	-	-	-	-	
16		Purchased Power	1,424,839	.208	-	-	-	-	-	-	-	-	
17		Purchased Gas	-	-	-	-	-	-	-	-	-	-	
18		Other	-	(5,887)	(1,559)	-	-	-	-	-	-	-	
19		Water Treatment Expenses	553,472	(5,887)	(1,559)	(9,099)	-	-	-	-	-	-	
20		Transmission and Distribution Expenses	597,301	(368)	(484)	-	-	-	-	-	-	-	
21		Customer Accounting Expenses	1,742,389	(14,469)	(5,090)	(370,676)	-	-	-	-	-	-	
22		Sales Expense	1,182,195	(13,469)	(1,372)	-	-	-	-	-	-	-	
23		Administrative and General Expenses	2,090,357	(7,277)	(498)	-	-	-	-	-	-	-	
24		Total Operation and Maintenance Expense	\$ 8,355,495	\$ (41,898)	\$ (3,157)	\$ (378,775)	\$ (7,522)	\$ (6,850)	\$ (67,128)	\$ -	\$ -	\$ -	
25													
26		Depreciation and Amortization Expenses	2,672,715	-	-	-	-	-	-	-	-	-	
27													
28		Taxes	-	-	-	-	-	-	-	-	-	-	
29		Federal Income Taxes	448,513	-	-	-	-	-	-	-	-	-	
30		State Income Taxes	98,803	-	-	-	-	-	-	-	-	-	
31		Property Taxes	747,264	-	-	-	-	-	-	-	-	-	
32		Other	170,486	-	-	-	-	-	-	-	-	-	
33		Total Taxes	\$ 1,465,065	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
34													
35		Total Operating Expenses	\$ 12,493,275	\$ (41,898)	\$ (9,157)	\$ (378,775)	\$ (7,522)	\$ (6,850)	\$ (67,128)	\$ -	\$ -	\$ -	
36		Operating Income (Loss)	\$ 2,562,892	\$ 41,898	\$ 9,157	\$ 378,775	\$ 7,522	\$ 6,850	\$ 67,128	\$ -	\$ -	\$ -	

OPERATING INCOME ADJUSTMENT NO. 1 - UNBILLED EXPENSES

LINE NO.	DESCRIPTION	(A) COMPANY PROPOSED	(B) STAFF ADJUSTMENTS	(C) STAFF <sup>1</sup> RECOMMENDED
1	Residential	\$ 11,436,591	\$ -	\$ 11,436,591
2	Commercial	2,606,553	-	2,606,553
3	Industrial	70,149	-	70,149
4	Revenue Adjustments	\$ 14,113,293	\$ -	\$ 14,113,293
5				
6	Source Supply - Other	\$ 73,041	\$ -	\$ 73,041
7	Unbilled Expenses	454	(454)	-
8	Total Source Supply - Other	\$ 73,495	\$ (454)	\$ 73,041
9				
10	Purchased Power	\$ 1,425,047	\$ -	\$ 1,425,047
11	Unbilled Expenses	(208)	208	0
12	Total Purchased Power	\$ 1,424,839	\$ 208	\$ 1,425,047
13				
14	Pumping Expense - Other	\$ 547,605	\$ -	\$ 547,605
15	Unbilled Expenses	5,867	(5,867)	(0)
16	Total Pumping Expense - Other	\$ 553,472	\$ (5,867)	\$ 547,605
17				
18	Water Treatment Expenses	\$ 596,733	\$ -	\$ 596,733
19	Unbilled Expenses	569	(569)	-
20	Total Water Treatment Expenses	\$ 597,301	\$ (569)	\$ 596,733
21				
22	Transmission and Distribution Expenses	\$ 1,727,900	\$ -	\$ 1,727,900
23	Unbilled Expenses	14,469	(14,469)	-
24	Total Transmission and Distribution Expenses	\$ 1,742,369	\$ (14,469)	\$ 1,727,900
25				
26	Customer Accounting Expenses	\$ 1,168,726	\$ -	\$ 1,168,726
27	Unbilled Expenses	13,469	(13,469)	-
28	Total Customer Accounting Expenses	\$ 1,182,195	\$ (13,469)	\$ 1,168,726
29				
30	Administrative and General Expenses	\$ 2,083,080	\$ -	\$ 2,083,080
31	Unbilled Expenses	7,277	(7,277)	-
32	Total Administrative and General Expenses	\$ 2,090,357	\$ (7,277)	\$ 2,083,080
33				
34	Total Expense Adjustments	\$ 7,664,029	\$ (41,898)	\$ 7,622,131

<sup>1</sup> Amounts do not reflect other adjustments.

References:

Column (A): Company Schedule C-1  
Column (B): Testimony JMM  
Column (C): Column (A) + Column (B)

OPERATING INCOME ADJUSTMENT NO. 2 - FLEET FUEL EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF <sup>1</sup> RECOMMENDED
1	Source Supply - Other	\$ 15,055,433	\$ -	\$ 15,055,433
2	Fleet Fuel Expenses	733	(154)	580
3	Total Source Supply - Other	\$ 15,056,166	\$ (154)	\$ 15,056,012
4				
5	Pumping Expense - Other	\$ 546,038	\$ -	\$ 546,038
6	Fleet Fuel Expenses	7,434	(1,559)	5,875
7	Total Pumping Expense - Other	\$ 553,472	\$ (1,559)	\$ 551,913
8				
9	Water Treatment Expenses	\$ 594,993	\$ -	\$ 594,993
10	Fleet Fuel Expenses	2,308	(484)	1,824
11	Total Water Treatment Expenses	\$ 597,301	\$ (484)	\$ 596,817
12				
13	Transmission and Distribution Expenses	\$ 1,709,651	\$ -	\$ 1,709,651
14	Fleet Fuel Expenses	32,718	(5,090)	27,628
15	Total Transmission and Distribution Expenses	\$ 1,742,369	\$ (5,090)	\$ 1,737,279
16				
17	Customer Accounting Expenses	\$ 1,173,376	\$ -	\$ 1,173,376
18	Fleet Fuel Expenses	8,819	(1,372)	7,447
19	Total Customer Accounting Expenses	\$ 1,182,195	\$ (1,372)	\$ 1,180,823
20				
21	Administrative and General Expenses	\$ 2,087,984	\$ -	\$ 2,087,984
22	Fleet Fuel Expenses	2,373	(498)	1,875
23	Total Administrative and General Expenses	\$ 2,090,357	\$ (498)	\$ 2,089,860
24				
25	Total Expense Adjustments	\$ 21,221,860	\$ (9,157)	\$ 21,212,704
26				
27				
28	Staff's Calculation based on the most recent 12 month gas price of \$ 3.38			
29				
30		Company Pro-forma	Staff's Recalculation	Reduction
31	Source Supply - Other	\$ 733	\$ 580	\$ 154
32	Pumping Expenses Other	7,434	5,875	1,559
33	Water Treatment Expenses	2,308	1,824	484
34	Transmission and Distribution Expenses	24,273	19,183	5,090
35	Customer Accounting Expenses	6,542	5,170	1,372
36	Administrative and General Expenses	2,373	1,875	498
37	Totals	\$ 43,664	\$ 34,507	\$ 9,157

<sup>1</sup> Amounts do not reflect other adjustments.

References:

Column (A), Company Schedule C-1  
Column (B): Testimony JMM  
Column (C): Column (A) + Column (B)

Arizona Water Company - Supersition (Apache Junction, Superior, Miami)  
Docket No. W-01445A-11-0310  
Test Year ended December 31, 2010

Surrebuttal Schedule JMM-12

OPERATING INCOME ADJUSTMENT NO. 3 - REMOVAL OF PROJECTED EXPENSES

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF <sup>1</sup> RECOMMENDED
1	Pumping Expenses - Other	\$ 544,373	\$ -	\$ 544,373
2	Normalization of Pumping Expenses	9,099	(9,099)	-
3	Total Pumping Expense - Other	\$ 553,472	\$ (9,099)	\$ 544,373
4				
5	Transmission and Distribution Expenses	\$ 1,371,693	\$ -	\$ 1,371,693
6	Normalization of Transmission and Distribution Expenses	370,676	(370,676)	-
7	Total Transmission and Distribution Expenses	\$ 1,742,369	\$ (370,676)	\$ 1,371,693

<sup>1</sup> Amounts do not reflect other adjustments.

References:

Column (A), Company Schedule C-1  
Column (B): Testimony JMM  
Column (C): Column (A) + Column (B)

Arizona Water Company - Supersition (Apache Junction, Superior, Miami)  
Docket No. W-01445A-11-0310  
Test Year ended December 31, 2010

Surrebuttal Schedule JMM-13

OPERATING INCOME ADJUSTMENT NO. 4 - RUCO MISCELLANEOUS EXPENSE ADJUSTMENT

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF <sup>1</sup> RECOMMENDED
1	Administrative and General Expenses	\$ 2,090,357	\$ (7,522)	\$ 2,082,835

<sup>1</sup> Amounts do not reflect other adjustments.

References:

Column (A), Company Schedule C-1  
Column (B): Testimony JMM  
Column (C): Column (A) + Column (B)

Arizona Water Company - Supersition (Apache Junction, Superior, Miami)  
Docket No. W-01445A-11-0310  
Test Year ended December 31, 2010

Surrebuttal Schedule JMM-14

OPERATING INCOME ADJUSTMENT NO. 5 - REMOVAL OF ADDITIONAL BMP COSTS

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF <sup>1</sup> RECOMMENDED
1	Administrative and General Expenses	\$ 2,083,507	\$ -	\$ 2,083,507
2	Removal of Additional BMP Costs	6,850	(6,850)	-
3	Total Administrative and General	<u>\$ 2,090,357</u>	<u>\$ (6,850)</u>	<u>\$ 2,083,507</u>

<sup>1</sup> Amounts do not reflect other adjustments.

References:

Column (A), Company Schedule C-1  
Column (B): Testimony JMM  
Column (C): Column (A) + Column (B)



OPERATING INCOME ADJUSTMENT NO. 6 - RATE CASE EXPENSE

LINE NO.	DESCRIPTION	[A]		[B]		[C]	
		COMPANY PROPOSED		STAFF ADJUSTMENTS		STAFF <sup>1</sup> RECOMMENDED	
1	Administrative and General Expenses	\$	1,985,470	\$	-	\$	1,985,470
2	Rate Case Expense Pro Forma		104,887		(67,128)		37,759
3	Total Administrative and General	\$	2,090,357	\$	(67,128)	\$	2,023,229

### Staff's Calculation of Rate Case Expense for Pinal Valley

Line No.	System	Average Number of Customers	[A] T.Y. 2010 Rate Case Expense Estimate / Spread	[B] Normalization Period In Years	[C] Annual Amortization / Pro Forma Rate Case Exp.	[D] T.Y. 2010 Prior Rate Case Expense Charged to O&M - 928.2	[E] Increase / (Decrease)
1	All Systems						
2							
3							
4							
5							
6							
7							
8							
9							
10							
11							
12							
13							
14							
15							
16							
17							
18							
19							
20							

<sup>1</sup> Amounts do not reflect other adjustments.

References:  
Column (A), Company Schedule C-1  
Column (B): Testimony JMM  
Column (C): Column (A) + Column (B)

OPERATING INCOME ADJUSTMENT NO. 7 - DEPRECIATION EXPENSE ON TEST YEAR PLANT

LINE NO.	ACCT NO.	DESCRIPTION	(A) PLANT In SERVICE Per Staff	(B) NonDepreciable or Fully Depreciated PLANT	(C) DEPRECIABLE PLANT (Col A - Col B)	(D) DEPRECIATION RATE	(E) DEPRECIATION EXPENSE (Col C x Col D)
1	301	Organization Cost	\$ 187	\$ 187	\$ -	0.00%	\$ -
2	302	Franchise Cost	\$ 6,869	\$ 6,869	\$ -	4.00%	\$ -
3	303	Other Intangibles	\$ 7,940	\$ -	\$ 7,940	5.00%	\$ 397
4	310.1	Water Rights	\$ 793,568	\$ -	\$ 793,568	0.00%	\$ -
5	310.3	Other Source of Supply Land	\$ 153,814	\$ -	\$ 153,814	0.00%	\$ -
6	310.4	Wells - Other	\$ 1,526,600	\$ -	\$ 1,526,600	4.17%	\$ 63,608
7	314	Wells	\$ 6,635,805	\$ -	\$ 6,635,805	3.13%	\$ 207,701
8	320	Pumping Plant Land	\$ 18,910	\$ -	\$ 18,910	0.00%	\$ -
9	321	Pumping Plant Structures & Improvements	\$ 293,259	\$ -	\$ 293,259	2.86%	\$ 8,387
10	325	Electric Pumping Equipment	\$ 9,848,582	\$ -	\$ 9,848,582	5.88%	\$ 579,097
11	328	Gas Engine Equipment	\$ 163	\$ -	\$ 163	4.00%	\$ 7
12	330	Water Treatment Plant - Land	\$ 811	\$ -	\$ 811	0.00%	\$ -
13	331	Water Treatment Structures and Improvements	\$ 49,586	\$ -	\$ 49,586	2.50%	\$ 1,240
14	332	Water Treatment Equipment	\$ 10,187,393	\$ -	\$ 10,187,393	2.86%	\$ 291,359
15	340	Transmission and Distribution - Land	\$ 195,215	\$ -	\$ 195,215	0.00%	\$ -
16	342	Storage Tanks	\$ 4,947,247	\$ -	\$ 4,947,247	2.00%	\$ 98,945
17	343	Transmission and Distribution Mains	\$ 53,612,436	\$ -	\$ 53,612,436	1.79%	\$ 959,663
18	344	Fire Sprinkler Taps	\$ 756,878	\$ -	\$ 756,878	2.00%	\$ 15,138
19	345	Services	\$ 13,475,428	\$ -	\$ 13,475,428	2.38%	\$ 320,715
20	346	Meters	\$ 2,027,498	\$ -	\$ 2,027,498	4.55%	\$ 92,251
21	348	Hydrants	\$ 3,697,873	\$ -	\$ 3,697,873	1.82%	\$ 67,301
22	389	General Plant Land	\$ 54,061	\$ -	\$ 54,061	0.00%	\$ -
23	390	General Plant Structures	\$ 910,993	\$ -	\$ 910,993	2.50%	\$ 22,775
24	390.1	Leasehold Improvements	\$ 1,291,792	\$ -	\$ 1,291,792	2.23%	\$ 28,818
25	391	Office Furniture & Equipment	\$ 1,856,199	\$ -	\$ 1,856,199	6.67%	\$ 123,808
26	393	Warehouse Equipment	\$ 16,284	\$ -	\$ 16,284	5.00%	\$ 814
27	394	Tools, Shops, and Garage Equipment	\$ 523,896	\$ -	\$ 523,896	4.00%	\$ 20,956
28	395	Laboratory Equipment	\$ 87,830	\$ -	\$ 87,830	5.00%	\$ 4,391
29	396	Power Operated Equipment	\$ 44,523	\$ -	\$ 44,523	6.67%	\$ 2,970
30	397	Communications Equipment	\$ 1,102,638	\$ -	\$ 1,102,638	6.67%	\$ 73,546
31	398	Miscellaneous Equipment	\$ 98,397	\$ -	\$ 98,397	3.33%	\$ 3,277
32		Intentionally Left Blank					
33		Total Plant	\$ 114,222,674	\$ 7,056	\$ 114,215,619		\$ 2,987,163
34							
35		Composite Depreciation Rate (Depr Exp / Depreciable Plant):	2.00%				
36		CIAC:	\$ 20,165,452				
37		Amortization of CIAC (Line 35 x Line 36):	\$ 403,309				
38							
39		Depreciation Expense Before Amortization of CIAC:	\$ 2,987,163				
40		Less Amortization of Deferred Liability	\$ 28,000				
41		Less Amortization of CIAC:	\$ 403,309				
42		Test Year Depreciation Expense - Staff:	\$ 2,555,854				
43		Depreciation Expense - Company:	\$ 2,672,715				
44		Add deferred CAP increase in amortization	\$ 47,654				
45		Staff's Total Adjustment:	\$ (69,207)				

References:

Column [A]: Schedule JMM-4  
Column [B]: From Column [A]  
Column [C]: Column [A] - Column [B]  
Column [D]: Engineering Staff Report  
Column [E]: Column [C] x Column [D]

Arizona Water Company - Supersition (Apache Junction, Superior, Miami)  
Docket No. W-01445A-11-0310  
Test Year ended December 31, 2010

**Surrebuttal Schedule JMM-17**

**OPERATING INCOME ADJUSTMENT NO. 8 - TEST YEAR INCOME TAXES**

LINE NO.	DESCRIPTION	COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1	Federal Income Taxes	\$ 448,513	\$ 170,678	\$ 619,190
2	State Income Taxes	98,803	37,599	136,402
3	Federal and State Income Taxes	\$ 547,316	\$ 208,276	\$ 755,592

References:

Column (A), Company Schedule C-1  
Column (B): Column [C] - Column [A]  
Column (C): Schedule JMM-2

OPERATING INCOME ADJUSTMENT NO. 9 - PROPERTY TAX EXPENSE

LINE NO.		[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues	\$ 15,056,166	\$ 15,056,166
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	30,112,332	\$ 30,112,332
4	Staff Recommended Revenue, Per Schedule JMM-1	15,056,166	\$ 17,053,383
5	Subtotal (Line 4 + Line 5)	45,168,499	47,165,716
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	15,056,166	\$ 15,721,905
8	Department of Revenue Mutilplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	30,112,332	\$ 31,443,810
10	Plus: 10% of CWIP -	-	-
11	Less: Net Book Value of Licensed Vehicles	-	\$ -
12	Full Cash Value (Line 9 + Line 10 - Line 11)	30,112,332	\$ 31,443,810
13	Assessment Ratio	20.5%	20.5%
14	Assessment Value (Line 12 * Line 13)	6,173,028	\$ 6,445,981
15	Composite Property Tax Rate (Per Company Schedule)	13.4045%	13.4045%
16			
17	Staff Test Year Adjusted Property Tax (Line 14 * Line 15)	\$ 827,466	
18	Company Proposed Property Tax	747,264	
19			
20	Staff Test Year Adjustment (Line 17-Line 18)	\$ 80,202	
21	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		\$ 864,054
22	Staff Test Year Adjusted Property Tax Expense (Line 17)		\$ 827,466
23	Increase in Property Tax Expense Due to Increase in Revenue Requirement		\$ 36,588
24			
25	Increase to Property Tax Expense		\$ 36,588
26	Increase in Revenue Requirement		1,997,217
27	Increase to Property Tax per Dollar Increase in Revenue (Line 25/Line 26)		1.831953%

## Test Year ended December 31, 2010

Staff Recommended and Company Proposed

**9.7%**

<sup>1</sup> Company Schedule D-1, page 2

**[D] : [B] x [C]**

Arizona Water Company - Cochise (Bisbee, Sierra Vista)  
Docket No. W-01445A-11-0310  
Test Year ended December 31, 2010

SURREBUTTAL TESTIMONY OF Jeffrey M. Michlik

**TABLE OF CONTENTS TO SCHEDULES**

<u>SCH #</u>	<u>TITLE</u>
JMM-1	REVENUE REQUIREMENT
JMM-2	GROSS REVENUE CONVERSION FACTOR
JMM-3	RATE BASE - ORIGINAL COSTS
JMM-4	SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS
JMM-5	ORIGINAL COST RATE BASE ADJUSTMENT # 1 - RUCO ADJUSTMENT
JMM-6	ORIGINAL COST RATE BASE ADJUSTMENT # 2 - NOT USED
JMM-7	ORIGINAL COST RATE BASE ADJUSTMENT # 3 - CASH WORKING CAPITAL
JMM-8	OPERATING INCOME STATEMENT - ADJUSTED TEST YEAR AND STAFF RECOMMENDED
JMM-9	SUMMARY OF OPERATING INCOME STATEMENT ADJUSTMENTS - TEST YEAR
JMM-10	OPERATING INCOME ADJUSTMENT # 1 - REVERSE UNBILLED EXPENSES
JMM-11	OPERATING INCOME ADJUSTMENT # 2 - FLEET FUEL EXPENSE
JMM-12	OPERATING INCOME ADJUSTMENT # 3 - REMOVAL OF PROJECTED EXPENSES
JMM-13	OPERATING INCOME ADJUSTMENT # 4 - RUCO MISCELLANEOUS EXPENSE ADJUSTMENT
JMM-14	OPERATING INCOME ADJUSTMENT # 5 - NOT USED
JMM-15	OPERATING INCOME ADJUSTMENT # 6 - RATE CASE EXPENSE
JMM-16	OPERATING INCOME ADJUSTMENT # 7 - DEPRECIATION EXPENSE
JMM-17	OPERATING INCOME ADJUSTMENT # 8 - INCOME TAX EXPENSE
JMM-18	OPERATING INCOME ADJUSTMENT # 9 - PROPERTY TAX EXPENSE

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY FAIR VALUE	(B) STAFF FAIR VALUE
1	Adjusted Rate Base	\$ 8,550,839	\$ 8,373,538
2	Adjusted Operating Income (Loss)	\$ 387,079	\$ 473,289
3	Current Rate of Return (L2 / L1)	4.53%	5.65%
4	Required Rate of Return	9.72%	8.1%
5	Required Operating Income (L4 * L1)	\$ 830,936	\$ 678,257
6	Operating Income Deficiency (L5 - L2)	\$ 443,857	\$ 204,968
7	Gross Revenue Conversion Factor	1.6516	1.6516
8	Required Revenue Increase (L7 * L6)	\$ 733,087	<b>\$ 338,521</b>
9	Adjusted Test Year Revenue	\$ 3,303,549	\$ 3,303,549
10	Proposed Annual Revenue (L8 + L9)	\$ 4,036,636	\$ 3,642,070
11	Required Increase in Revenue (%)	22.19%	10.25%

References:

Column (A): Company Schedule A-1

Column (B): Staff Schedules JMM-3 and JMM-7

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
<u>Calculation of Gross Revenue Conversion Factor:</u>					
1	Revenue	100.0000%			
2	Uncollectible Factor (Line 11)	0.0000%			
3	Revenues (L1 - L2)	100.0000%			
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	39.4520%			
5	Subtotal (L3 - L4)	60.5480%			
6	Revenue Conversion Factor (L1 / L5)	1.651581			
<u>Calculation of Uncollectible Factor:</u>					
7	Unity	100.0000%			
8	Combined Federal and State Tax Rate (Line 23)	38.5989%			
9	One Minus Combined Income Tax Rate (L7 - L8)	61.4011%			
10	Uncollectible Rate	0.0000%			
11	Uncollectible Factor (L9 * L10)	0.0000%			
<u>Calculation of Effective Tax Rate:</u>					
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
13	Arizona State Income Tax Rate	6.9680%			
14	Federal Taxable Income (L12 - L13)	93.0320%			
15	Applicable Federal Income Tax Rate (Line 55)	34.0000%			
16	Effective Federal Income Tax Rate (L14 x L15)	31.6309%			
17	Combined Federal and State Income Tax Rate (L13 + L16)		38.5989%		
<u>Calculation of Effective Property Tax Factor</u>					
18	Unity	100.0000%			
19	Combined Federal and State Income Tax Rate (L17)	38.5989%			
20	One Minus Combined Income Tax Rate (L18-L19)	61.4011%			
21	Property Tax Factor (JMM-17, L27)	1.3893%			
22	Effective Property Tax Factor (L20*L21)		0.8531%		
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			39.4520%	
24	Required Operating Income (Schedule JMM-1, Line 5)	\$ 678,257			
25	Adjusted Test Year Operating Income (Loss)	473,289			
26	Required Increase in Operating Income (L24 - L25)		\$ 204,968		
27	Income Taxes on Recommended Revenue (Col. [E], L52)	\$ 252,667			
28	Income Taxes on Test Year Revenue (Col. [B], L52)	123,817			
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		128,850		
30	Recommended Revenue Requirement (Schedule JMM-1, Line 10)	\$ 3,642,070			
31	Uncollectible Rate (Line 10)	0.0000%			
32	Uncollectible Expense on Recommended Revenue (L30*L31)	\$ -			
33	Adjusted Test Year Uncollectible Expense	\$ -			
34	Required Increase in Revenue to Provide for Uncollectible Exp. (L32-L33)		-		
35	Property Tax with Recommended Revenue (JMM-17, Col B, L31)	\$ 142,396			
36	Property Tax on Test Year Revenue (JMM-17, Col A, L17)	137,693			
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		4,703		
38	Total Required Increase in Revenue (L26 + L29 + L34 + L37)		\$ 338,521		
<u>Calculation of Income Tax:</u>					
39	Revenue (Schedule JMM-7, Col. [C], Line 5 & Sch. JMM-1, Col. [D] Line 10)	\$ 3,303,549	\$ 338,521	\$ 3,642,070	
40	Operating Expenses Excluding Income Taxes	\$ 2,706,443		\$ 2,711,146	
41	Synchronized Interest (L56)	\$ 276,327		\$ 276,327	
42	Arizona Taxable Income (L39 - L40 - L41)	\$ 320,779		\$ 654,597	
43	Arizona State Income Tax Rate	6.9680%		6.9680%	
44	Arizona Income Tax (L42 x L43)	\$ 22,352		\$ 45,612	
45	Federal Taxable Income (L42 - L44)	\$ 298,428		\$ 608,985	
46	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 34%	\$ 17,000		\$ 17,000	
47	Federal Tax on Second Income Bracket (\$51,001 - \$75,000) @ 34%	\$ 8,500		\$ 8,500	
48	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$ 8,500		\$ 8,500	
49	Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 34%	\$ 67,465		\$ 79,900	
50	Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	\$ -		\$ 93,155	
51	Total Federal Income Tax	\$ 101,465		\$ 207,055	
52	Combined Federal and State Income Tax (L44 + L51)	\$ 123,817		\$ 252,667	
53	Applicable Federal Income Tax Rate [Col. [E], L51 - Col. [B], L51] / [Col. [E], L45 - Col. [B], L45]			34.0000%	
<u>Calculation of Interest Synchronization:</u>					
54	Rate Base (Schedule JMM-3, Col. (C), Line 17)	\$ 8,373,538			
55	Weighted Average Cost of Debt	3.3000%			
56	Synchronized Interest (L45 X L46)	\$ 276,327			



Arizona Water Company - Cochise (Bisbee, Sierra Vista)  
Docket No. W-01445A-11-0310  
Test Year ended December 31, 2010

Surrebuttal Schedule JMM-3

**RATE BASE - ORIGINAL COST**

LINE NO.	(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	Adj. No.	(C) STAFF AS ADJUSTED
1	Plant in Service	\$ 20,992,936		\$ 20,870,702
2	Less: Accumulated Depreciation	7,506,943		7,506,943
3	Net Plant in Service	<u>\$ 13,485,993</u>		<u>\$ 13,363,759</u>
4				
5	<u>LESS:</u>			
6				
7	Contributions in Aid of Construction (CIAC)	\$ 2,198,794		\$ 2,198,794
8	Less: Accumulated Amortization	439,381		\$ 439,381
9	Net CIAC	<u>1,759,413</u>		<u>\$ 1,759,413</u>
10				
11	Advances in Aid of Construction (AIAC)	1,632,190		1,632,190
12				
13	Customer Deposits	38,290		38,290
14				
15	Deferred Income Tax Credits	1,823,964		1,823,964
16				
17				
18	<u>ADD:</u>			
19				
20				
21	Working Capital	318,702	(55,066) 3	263,636
22				
23	Deferred Regulatory Assets	-	-	-
24				
25				
26	<b>Original Cost Rate Base</b>	<u>\$ 8,550,839</u>	<u>\$ (177,301)</u>	<u>\$ 8,373,538</u>

References:

Column [A]: Company as Filed  
Column [B]: Schedule JMM-4  
Column (C): Column (A) + Column (B)

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJ #1 RUCO Adjustment Ref: Sch JMM-5	[C] ADJ #2 Not Used Ref: Sch JMM-6	[D] ADJ #3 Cash Working Capital Ref: Sch JMM-7	[E] STAFF ADJUSTED
1		PLANT IN SERVICE:					
2	301	Organization Cost	47				47
3	302	Franchise Cost	18,755				18,755
4	303	Other Intangibles	25,252				25,252
5	310.1	Water Rights	445,953				445,953
6	310.3	Other Source of Supply Land	12,971				12,971
7	310.4	Wells - Other	-				-
8	314	Wells	1,190,671				1,190,671
9	320	Pumping Plant Land	8,935				8,935
10	321	Pumping Plant Structures & Improvements	46,922				46,922
11	325	Electric Pumping Equipment	1,471,226				1,471,226
12	328	Gas Engine Equipment	188,792				188,792
13	330	Water Treatment Plant - Land	-				-
14	331	Water Treatment Structures and Improvements	16,144				16,144
15	332	Water Treatment Equipment	127,026				127,026
16	340	Transmission and Distribution - Land	5,044				5,044
17	342	Storage Tanks	750,636				750,636
18	343	Transmission and Distribution Mains	10,590,817	(23,852)			10,566,965
19	344	Fire Sprinkler Taps	322,137	(83,267)			322,137
20	345	Services	3,122,215	-			3,038,948
21	346	Meters	477,436	-			477,436
22	348	Hydrants	731,417	(15,558)			715,859
23	389	General Plant Land	2,450	-			2,450
24	390	General Plant Structures	48,995	-			48,995
25	390.1	Leasehold Improvements	119,181	-			119,181
26	391	Office Furniture & Equipment	532,328	-			532,328
27	393	Warehouse Equipment	905	-			905
28	394	Tools, Shops, and Garage Equipment	112,833	(1,838)			110,995
29	395	Laboratory Equipment	5,639	-			5,639
30	396	Power Operated Equipment	33,867	-			33,867
31	397	Communications Equipment	550,316	2,281			552,597
32	398	Miscellaneous Equipment	34,025	-			34,025
33		Intentionally Left Blank	-	-	-	-	-
34			20,992,936	-	-	-	20,870,702
35							
36		Total Plant in Service	\$ 20,992,936	\$ (122,234)	\$ -	\$ -	\$ 20,870,702
37							
38		Less: Accumulated Depreciation	7,506,943	-	-	-	7,506,943
39							
40		Net Plant in Service	\$ 13,485,993	\$ (122,234)	\$ -	\$ -	\$ 13,363,759
41							
42		LESS:					
43		Contributions in Aid of Construction (CIAC)					
44		Less: Accumulated Amortization	\$ 2,198,794	-	-	-	\$ 2,198,794
45		Net CIAC (L25 - L26)	439,381	-	-	-	439,381
46		Advances in Aid of Construction (AIAC)	1,759,413	-	-	-	1,759,413
47		Customer Deposits	1,632,190	-	-	-	1,632,190
48		Deferred Income Taxes	38,290	-	-	-	38,290
49			1,823,964	-	-	-	1,823,964
50							
51		ADD:					
52		Working Capital	318,702	-	-	(55,066)	263,636
53		Deferred Regulatory Assets	-	-	-	-	-
54			\$ 8,550,839	\$ (122,234)	\$ -	\$ (55,066)	\$ 8,373,538
55		Original Cost Rate Base					

RATE BASE ADJUSTMENT NO. 1 - RUCO RATE BASE ADJUSTMENT

LINE NO.	ACCT NO.	DESCRIPTION	[A]		[B]		[C]	
			COMPANY PROPOSED		STAFF ADJUSTMENTS		STAFF RECOMMENDED	
1	343	Transmission and Distribution Mains	\$	10,590,817	\$	(23,852)	\$	10,566,965
2	345	Services		3,122,215		(83,267)		3,038,948
3	348	Hydrants		731,417		(15,558)		715,859
4			\$	14,444,449	\$	(122,677)	\$	14,321,772
5								
6		Phoenix Meter Shop						
7	394	Tools, Shops, and Garage Equipment	\$	112,833	\$	(1,838)	\$	110,995
8	397	Communications Equipment		550,316		2,281		552,597
9			\$	663,149	\$	443	\$	663,592

REFERENCES:

Column [A]: Company Filing  
Column [B]: Testimony JMM  
Column [C]: Column [A] + Column [B]

Arizona Water Company - Cochise (Bisbee, Sierra Vista)  
Docket No. W-01445A-11-0310  
Test Year ended December 31, 2010

Surrebuttal Schedule JMM-6

RATE BASE ADJUSTMENT NO. 2 - NOT USED

RATE BASE ADJUSTMENT NO. 3 - CASH WORKING CAPITAL

LINE NO.	ACCT NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED	[D]	[E]	[F]
1		Working Capital	\$ 318,702	\$ (55,066)	\$ 263,636			
2								
3								
4								
5			Test Year					
6			Adjusted	Revenue	Expense	Net	Lead / Lag	Working Cash
7			Results			Lag Days	Factor	Requirement
8						[B - C]	[D + 365]	[A X E]
8		Staff's Calculation						
9		Purchased Power	\$ 451,385	30.32	30.87	(0.55)	(0.0015)	\$ (678)
10		Payroll	843,054	30.32	14.00	16.32	0.0447	37,700
11		Purchased Water	-	30.32	-	30.32	0.0831	-
12		Chemicals	27,617	30.32	(18.11)	48.43	0.1327	3,665
13		Property & Liability Insurance	39,836	30.32	(45.27)	75.59	0.2071	8,250
14		Workman's Compensation Insurance	9,111	30.32	(46.50)	76.82	0.2105	1,918
15		Health Insurance	145,704	30.32	(8.92)	39.24	0.1075	15,665
16		Other O&M (Excluding Rate Case Expense)	367,506	30.32	(9.27)	39.59	0.1085	39,864
17		Federal Income Taxes	207,055	30.32	37.00	(6.68)	(0.0183)	(3,788)
18		State Income Taxes	45,612	30.32	37.00	(6.68)	(0.0183)	(835)
19		FICA Taxes	63,248	30.32	14.00	16.32	0.0447	2,828
20		FUTA & SUTA Taxes	1,882	30.32	83.10	(52.78)	(0.1446)	(272)
21		Property Taxes	142,396	30.32	212.00	(181.68)	(0.4977)	(70,877)
22		Registration, Svc. Contracts, & Misc. Fees	40,447	30.32	(98.83)	129.15	0.3538	14,312
23		Retirement Annuities (401k)	74,691	30.32	34.72	(4.40)	(0.0120)	(900)
24								
25								
26			\$ 2,459,543					\$ 46,851
27		Subtotal						
28								
29		Interest Expense	286,114	30.32	91.25	(60.93)	(0.1669)	(47,760)
30		Cost of Equity	-	-	-	-	-	-
31								
32		Subtotal	\$ 286,114					\$ (47,760)
33								
34								
35		Total	2,745,657					\$ (909)
36								
37		Company Cash Working Capital						\$ 54,157
38								
39		Increase/(Decrease)						\$ (55,066)

REFERENCES:

Column [A]: Company Filing  
Column [B]: Direct Testimony JMM  
Column [C]: Column [A] + Column [B]

OPERATING INCOME STATEMENT - ADJUSTED TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY ADJUSTED TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF PROPOSED CHANGES	[E] STAFF RECOMMENDED
1	<u>OPERATING REVENUES:</u>					
2	Residential	\$ 2,270,520	\$ -	\$ 2,270,520	\$ 338,521	\$ 2,609,041
3	Commercial	863,072	-	863,072	-	863,072
4	Industrial	3,342	-	3,342	-	3,342
5	Private Fire Service	16,647	-	16,647	-	16,647
6	Other Water Revenues	107,091	-	107,091	-	107,091
7	Total Water Revenues	\$ 3,260,672	\$ -	\$ 3,260,672	\$ 338,521	\$ 3,599,193
8						
9	Miscellaneous	42,877.00	-	42,877.00	-	42,877
10	Total Operating Revenues	\$ 3,303,549	\$ -	\$ 3,303,549	\$ 338,521	\$ 3,642,070
11						
12	<u>OPERATING EXPENSES:</u>					
13	Source of Supply Expenses					
14	Purchased Water	\$ -	\$ -	\$ -	\$ -	\$ -
15	Other	36,839	(471)	36,368	-	36,368
16	Pumping Expenses					
17	Purchased Power	448,281	3,104	451,385	-	451,385
18	Purchased Gas	1,606	-	1,606	-	1,606
19	Other	103,494	(5,152)	98,342	-	98,342
20	Water Treatment Expenses	75,164	(634)	74,530	-	74,530
21	Transmission and Distribution Expenses	564,445	(115,648)	448,797	-	448,797
22	Customer Accounting Expenses	355,671	(3,328)	352,343	-	352,343
23	Sales Expense	-	-	-	-	-
24	Administrative and General Expenses	573,227	(21,535)	551,692	-	551,692
25	Total Operation and Maintenance Expense	2,158,727	(143,665)	2,015,062	-	2,015,062
26						
27	Depreciation and Amortization Expenses	498,716	(2,613)	496,103	-	496,103
28						
29	Taxes					
30	Federal Income Taxes	52,012	49,453	101,465	105,589	207,055
31	State Income Taxes	11,458	10,894	22,352	23,260	45,612
32	Property Taxes	137,972	(279)	137,693	4,703	142,396
33	Other	57,585	-	57,585	-	57,585
34	Total Taxes	259,027	60,068	319,095	133,553	452,648
35		-	-	-	-	-
36		-	-	-	-	-
37	Total Operating Expenses	2,916,470	-	2,830,260	133,553	2,963,813
38						
39	Operating Income (Loss)	\$ 387,079	\$ 86,210	\$ 473,289	\$ 204,968	\$ 678,257

References:

Column (A): Company Schedule C-1  
Column (B): Schedule JMM-9  
Column (C): Column (A) + Column (B)  
Column (D): Schedules JMM-17 and JMM-18  
Column (E): Column (C) + Column (D)

SUMMARY OF OPERATING INCOME STATEMENT ADJUSTMENTS - TEST YEAR

LINE NO.	ACCT. NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] Reverse Unbilled Expenses ADJ #1	[C] Fleet Fuel Expense ADJ #2	[D] Removal of Pumping Transmission and Distribution Projection ADJ #3	[E] RUCO Miscellaneous Expense Adjustment ADJ #4	[F] Not Used ADJ #5	[G] Rate Case Expense ADJ #6	[H] Not Used ADJ #7	[I] Income Tax Expense ADJ #8	[J] Property Expense ADJ #9	[K] STAFF ADJUSTED
1		OPERATING REVENUES:											
2		Residential	\$ 2,270,520	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	2,270,520
3		Commercial	863,072	-	-	-	-	-	-	-	-	-	863,072
4		Industrial	3,342	-	-	-	-	-	-	-	-	-	3,342
5		Private Fire Service	16,647	-	-	-	-	-	-	-	-	-	16,647
6		Other Water Revenues	107,091	-	-	-	-	-	-	-	-	-	107,091
7		Total Water Revenues	\$ 3,280,672	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	3,280,672
8		Miscellaneous	\$ 42,877	-	-	-	-	-	-	-	-	-	42,877
9		Total Operating Revenues	\$ 3,303,549	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	3,303,549
10		OPERATING EXPENSES:											
11		Source of Supply Expenses:											
12		Purchased Water	\$ 36,839	(429)	-	-	-	-	-	-	-	-	36,368
13		Other	448,281	-	-	-	-	-	-	-	-	-	451,385
14		Purchased Power	1,506	3,104	-	-	-	-	-	-	-	-	1,606
15		Purchased Gas	103,494	(1,635)	-	-	-	-	-	-	-	-	98,342
16		Other	75,164	(429)	-	-	-	-	-	-	-	-	74,530
17		Water Treatment Expenses	564,445	(5,011)	-	-	-	-	-	-	-	-	559,434
18		Transmission and Distribution Expenses	355,671	(5,256)	-	-	-	-	-	-	-	-	350,415
19		Customer Accounting Expenses	573,227	(1,401)	-	-	-	-	-	-	-	-	571,826
20		Sales Expense	573,227	(378)	-	-	-	-	-	-	-	-	572,849
21		Administrative and General Expenses	573,227	(1,739)	-	-	-	-	-	-	-	-	571,488
22		Total Operating and Maintenance Expense	\$ 2,158,727	\$ (9,406)	\$ (2,520)	\$ (112,080)	\$ (1,794)	\$ (1,794)	\$ (17,866)	\$ (2,613)	\$ -	\$ -	2,015,062
23		Depreciation and Amortization Expenses	498,716	-	-	-	-	-	-	-	-	-	498,716
24		Taxes											
25		Federal Income Taxes	52,012	-	-	-	-	-	-	-	-	-	52,012
26		State Income Taxes	11,458	-	-	-	-	-	-	-	-	-	11,458
27		Property Taxes	137,872	-	-	-	-	-	-	-	49,453	-	187,325
28		Other	57,585	-	-	-	-	-	-	-	10,894	-	68,479
29		Total Taxes	\$ 259,027	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (279)	\$ (279)	258,748
30		Total Operating Expenses	\$ 2,916,470	\$ (9,406)	\$ (2,520)	\$ (112,080)	\$ (1,794)	\$ (1,794)	\$ (17,866)	\$ (2,613)	\$ (60,347)	\$ (279)	2,830,260
31		Operating Income (Loss)	\$ 387,079	\$ 9,406	\$ 2,520	\$ 112,080	\$ 1,794	\$ 1,794	\$ 17,866	\$ 2,613	\$ (60,347)	\$ 279	473,289

OPERATING INCOME ADJUSTMENT NO. 1 - REVERSE UNBILLED EXPENSES

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF <sup>1</sup> RECOMMENDED
1	Residential	\$ 2,270,520	\$ -	\$ 2,270,520
2	Commercial	863,072	-	863,072
3	Industrial	3,342	-	3,342
4	Revenue Adjustments	\$ 3,136,934	\$ -	\$ 3,136,934
5				
6	Source Supply - Other	\$ 36,410	\$ -	\$ 36,410
7	Unbilled Expenses	429	(429)	-
8	Total Source Supply - Other	\$ 36,839	\$ (429)	\$ 36,410
9				
10	Purchased Power	\$ 451,385	\$ -	\$ 451,385
11	Unbilled Expenses	(3,104)	3,104	-
12	Total Purchased Power	\$ 448,281	\$ 3,104	\$ 451,385
13				
14	Pumping Expense - Other	\$ 101,859	\$ -	\$ 101,859
15	Unbilled Expenses	1,635	(1,635)	-
16	Total Pumping Expense - Other	\$ 103,494	\$ (1,635)	\$ 101,859
17				
18	Water Treatment Expenses	\$ 74,663	\$ -	\$ 74,663
19	Unbilled Expenses	501	(501)	-
20	Total Water Treatment Expenses	\$ 75,164	\$ (501)	\$ 74,663
21				
22	Transmission and Distribution Expenses	\$ 559,189	\$ -	\$ 559,189
23	Unbilled Expenses	5,256	(5,256)	-
24	Total Transmission and Distribution Expenses	\$ 564,445	\$ (5,256)	\$ 559,189
25				
26	Customer Accounting Expenses	\$ 352,721	\$ -	\$ 352,721
27	Unbilled Expenses	2,950	(2,950)	-
28	Total Customer Accounting Expenses	\$ 355,671	\$ (2,950)	\$ 352,721
29				
30	Administrative and General Expenses	\$ 571,488	\$ -	\$ 571,488
31	Unbilled Expenses	1,739	(1,739)	-
32	Total Administrative and General Expenses	\$ 573,227	\$ (1,739)	\$ 571,488
33				
34	Total Expense Adjustments	\$ 2,157,121	\$ (9,406)	\$ 2,147,715

<sup>1</sup> Amounts do not reflect other adjustments.

References:

Column (A): Company Schedule C-1  
Column (B): Testimony JMM  
Column (C): Column (A) + Column (B)



OPERATING INCOME ADJUSTMENT NO. 2 - FLEET FUEL EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF <sup>1</sup> RECOMMENDED
1	Source Supply - Other	\$ 3,303,362	\$ -	\$ 3,303,362
2	Fleet Fuel Expenses	187	(42)	144
3	Total Source Supply - Other	\$ 3,303,549	\$ (42)	\$ 3,303,507
4				
5	Pumping Expense - Other	\$ 101,602	\$ -	\$ 101,602
6	Fleet Fuel Expenses	1,892	(429)	1,463
7	Total Pumping Expense - Other	\$ 103,494	\$ (429)	\$ 103,065
8				
9	Water Treatment Expenses	\$ 74,577	\$ -	\$ 74,577
10	Fleet Fuel Expenses	587	(133)	454
11	Total Water Treatment Expenses	\$ 75,164	\$ (133)	\$ 75,031
12				
13	Transmission and Distribution Expenses	\$ 531,727	\$ -	\$ 531,727
14	Fleet Fuel Expenses	32,718	(1,401)	31,317
15	Total Transmission and Distribution Expenses	\$ 564,445	\$ (1,401)	\$ 563,044
16				
17	Customer Accounting Expenses	\$ 346,852	\$ -	\$ 346,852
18	Fleet Fuel Expenses	8,819	(378)	8,441
19	Total Customer Accounting Expenses	\$ 355,671	\$ (378)	\$ 355,293
20				
21	Administrative and General Expenses	\$ 572,623	\$ -	\$ 572,623
22	Fleet Fuel Expenses	604	(137)	467
23	Total Administrative and General Expenses	\$ 573,227	\$ (137)	\$ 573,090
24				
25	Total Expense Adjustments	\$ 4,975,550	\$ (2,520)	\$ 4,973,030
26				
27				
28	Staff's Calculation based on the most recent 12 month gas price of \$ 3.38			
29				
30		Company Pro-forma	Staff's Recalculation	Reduction
31	Source Supply - Other	\$ 187	\$ 144	\$ 42
32	Pumping Expenses Other	1,892	1,463	429
33	Water Treatment Expenses	587	454	133
34	Transmission and Distribution Expenses	6,177	4,776	1,401
35	Customer Accounting Expenses	1,665	1,287	378
36	Administrative and General Expenses	604	467	137
37	Totals	\$ 11,112	\$ 8,592	\$ 2,520

<sup>1</sup> Amounts do not reflect other adjustments.

References:

Column (A), Company Schedule C-1

Column (B): Testimony JMM

Column (C): Column (A) + Column (B)

Arizona Water Company - Cochise (Bisbee, Sierra Vista)  
Docket No. W-01445A-11-0310  
Test Year ended December 31, 2010

Surrebuttal Schedule JMM-12

OPERATING INCOME ADJUSTMENT NO. 3 - REMOVAL OF PROJECTED EXPENSES

LINE NO.	DESCRIPTION	[A]		[B]		[C]	
		COMPANY PROPOSED		STAFF ADJUSTMENTS		STAFF <sup>1</sup> RECOMMENDED	
1	Pumping Expenses - Other	\$	100,406	\$	-	\$	100,406
2	Normalization of Pumping Expenses		3,088		(3,088)		-
3	Total Pumping Expense - Other	\$	103,494	\$	(3,088)	\$	100,406
4							
5	Transmission and Distribution Expenses	\$	455,453	\$	-	\$	455,453
6	Normalization of Transmission and Distribution Expenses		108,992		(108,992)		-
7	Total Transmission and Distribution Expenses	\$	564,445	\$	(108,992)	\$	455,453

<sup>1</sup> Amounts do not reflect other adjustments.

References:

Column (A), Company Schedule C-1  
Column (B): Testimony JMM  
Column (C): Column (A) + Column (B)

Arizona Water Company - Cochise (Bisbee, Sierra Vista)  
Docket No. W-01445A-11-0310  
Test Year ended December 31, 2010

Surrebuttal Schedule JMM-13

OPERATING INCOME ADJUSTMENT NO. 4 - RUCO MISCELLANEOUS EXPENSE ADJUSTMENT

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF <sup>1</sup> RECOMMENDED
1	Administrative and General Expenses	\$ 573,227	\$ (1,794)	\$ 571,433

<sup>1</sup> Amounts do not reflect other adjustments.

References:

Column (A), Company Schedule C-1

Column (B): Testimony JMM

Column (C): Column (A) + Column (B)

Arizona Water Company - Cochise (Bisbee, Sierra Vista)  
Docket No. W-01445A-11-0310  
Test Year ended December 31, 2010

Surrebuttal Schedule JMM-14

OPERATING INCOME ADJUSTMENT NO. 5 - NOT USED

OPERATING INCOME ADJUSTMENT NO. 6 - RATE CASE EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Administrative and General Expenses	\$ 544,846	\$ -	\$ 544,846
2	Rate Case Expense Pro Forma	26,381	(17,866)	10,515
3	Total Administrative and General	\$ 573,227	\$ (17,866)	\$ 555,361

[illegible]

Rate Case Expense Incurred Last Time

Company Proposed Rate Case Expense Pro Forma

**Staff Adjustment to Rate Case Expense**

<sup>1</sup> Amounts do not reflect other adjustments.

References:

Column (A), Company Schedule C-1

Column (B): Testimony JMM

Column (C): Column (A) + Column (B)

OPERATING INCOME ADJUSTMENT NO. 7 - NOT USED

LINE NO.	ACCT NO.	DESCRIPTION	[A] PLANT In SERVICE Per Staff	[B] NonDepreciable or Fully Depreciated PLANT	[C] DEPRECIABLE PLANT (Col A - Col B)	[D] DEPRECIATION RATE	[E] DEPRECIATION EXPENSE (Col C x Col D)
1	301	Organization Cost	\$ 47	\$ 47	\$ (0)	0.00%	\$ -
2	302	Franchise Cost	\$ 18,755	\$ -	\$ 18,755	4.00%	\$ 750
3	303	Other Intangibles	\$ 25,252	\$ -	\$ 25,252	5.00%	\$ 1,263
4	310.1	Water Rights	\$ 445,953	\$ -	\$ 445,953	0.00%	\$ -
5	310.3	Other Source of Supply Land	\$ 12,971	\$ -	\$ 12,971	0.00%	\$ -
6	310.4	Wells - Other	\$ -	\$ -	\$ -	2.50%	\$ -
7	314	Wells	\$ 1,190,671	\$ -	\$ 1,190,671	3.13%	\$ 37,268
8	320	Pumping Plant Land	\$ 8,935	\$ -	\$ 8,935	0.00%	\$ -
9	321	Pumping Plant Structures & Improvements	\$ 46,922	\$ -	\$ 46,922	2.86%	\$ 1,342
10	325	Electric Pumping Equipment	\$ 1,471,226	\$ -	\$ 1,471,226	5.88%	\$ 86,508
11	328	Gas Engine Equipment	\$ 188,792	\$ -	\$ 188,792	4.00%	\$ 7,552
12	330	Water Treatment Plant - Land	\$ -	\$ -	\$ -	0.00%	\$ -
13	331	Water Treatment Structures and Improvements	\$ 16,144	\$ -	\$ 16,144	2.50%	\$ 404
14	332	Water Treatment Equipment	\$ 127,026	\$ -	\$ 127,026	2.86%	\$ 3,633
15	340	Transmission and Distribution - Land	\$ 5,044	\$ -	\$ 5,044	0.00%	\$ -
16	342	Storage Tanks	\$ 750,636	\$ -	\$ 750,636	2.00%	\$ 15,013
17	343	Transmission and Distribution Mains	\$ 10,566,965	\$ -	\$ 10,566,965	1.79%	\$ 189,149
18	344	Fire Sprinkler Taps	\$ 322,137	\$ -	\$ 322,137	2.00%	\$ 6,443
19	345	Services	\$ 3,038,948	\$ -	\$ 3,038,948	2.38%	\$ 72,327
20	346	Meters	\$ 477,436	\$ -	\$ 477,436	4.55%	\$ 21,723
21	348	Hydrants	\$ 715,859	\$ -	\$ 715,859	1.82%	\$ 13,029
22	389	General Plant Land	\$ 2,450	\$ -	\$ 2,450	0.00%	\$ -
23	390	General Plant Structures	\$ 48,995	\$ -	\$ 48,995	2.50%	\$ 1,225
24	390.1	Leasehold Improvements	\$ 119,181	\$ -	\$ 119,181	1.62%	\$ 1,928
25	391	Office Furniture & Equipment	\$ 532,328	\$ -	\$ 532,328	6.67%	\$ 35,506
26	393	Warehouse Equipment	\$ 905	\$ -	\$ 905	5.00%	\$ 45
27	394	Tools, Shops, and Garage Equipment	\$ 110,995	\$ -	\$ 110,995	4.00%	\$ 4,440
28	395	Laboratory Equipment	\$ 5,639	\$ -	\$ 5,639	5.00%	\$ 282
29	396	Power Operated Equipment	\$ 33,867	\$ -	\$ 33,867	6.67%	\$ 2,259
30	397	Communications Equipment	\$ 552,597	\$ -	\$ 552,597	6.67%	\$ 36,858
31	398	Miscellaneous Equipment	\$ 34,025	\$ -	\$ 34,025	3.33%	\$ 1,133
32		Intentionally Left Blank					
33		Total Plant	\$ 20,870,702	\$ 47	\$ 20,851,900		\$ 540,079
34							
35		Composite Depreciation Rate (Depr Exp / Depreciable Plant):	2.00%				
36		CIAC: \$	2,198,794				
37		Amortization of CIAC (Line 35 x Line 36): \$	43,976				
38							
39		Depreciation Expense Before Amortization of CIAC: \$	540,079				
40		Less Amortization of CIAC: \$	43,976				
41		Test Year Depreciation Expense - Staff: \$	496,103				
42		Depreciation Expense - Company: \$	498,716				
43		Staff's Total Adjustment: \$	(2,613)				

References:

Column [A]: Schedule JMM-4  
Column [B]: From Column [A]  
Column [C]: Column [A] - Column [B]  
Column [D]: Engineering Staff Report  
Column [E]: Column [C] x Column [D]

Arizona Water Company - Cochise (Bisbee, Sierra Vista)  
Docket No. W-01445A-11-0310  
Test Year ended December 31, 2010

Surrebuttal Schedule JMM-17

OPERATING INCOME ADJUSTMENT NO. 8 - TEST YEAR INCOME TAXES

LINE NO.	DESCRIPTION	COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1	Federal Income Taxes	\$ 52,012	\$ 49,453	\$ 101,465
2	State Income Taxes	11,458	10,894	22,352
3	Federal and State Income Taxes	\$ 63,470	\$ 60,347	\$ 123,817

References:

Column (A), Company Schedule C-1  
Column (B): Column [C] - Column [A]  
Column (C): Schedule JMM-2

OPERATING INCOME ADJUSTMENT NO. 9 - PROPERTY TAX EXPENSE

LINE NO.		[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
	Property Tax Calculation		
1	Staff Adjusted Test Year Revenues	\$ 3,303,549	\$ 3,303,549
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	6,607,098	\$ 6,607,098
4	Staff Recommended Revenue, Per Schedule JMM-1	3,303,549	\$ 3,642,070
5	Subtotal (Line 4 + Line 5)	9,910,647	10,249,168
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	3,303,549	\$ 3,416,389
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	6,607,098	\$ 6,832,778
10	Plus: 10% of CWIP -	-	-
11	Less: Net Book Value of Licensed Vehicles	-	\$ -
12	Full Cash Value (Line 9 + Line 10 - Line 11)	6,607,098	\$ 6,832,778
13	Assessment Ratio	20.5%	20.5%
14	Assessment Value (Line 12 * Line 13)	1,354,455	\$ 1,400,720
15	Composite Property Tax Rate (Per Company Schedule)	10.1659%	10.1659%
16			
17	Staff Test Year Adjusted Property Tax (Line 14 * Line 15)	\$ 137,693	
18	Company Proposed Property Tax	137,972	
19			
20	Staff Test Year Adjustment (Line 17-Line 18)	\$ (279)	
21	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		\$ 142,396
22	Staff Test Year Adjusted Property Tax Expense (Line 17)		\$ 137,693
23	Increase in Property Tax Expense Due to Increase in Revenue Requirement		\$ 4,703
24			
25	Increase to Property Tax Expense		\$ 4,703
26	Increase in Revenue Requirement		338,521
27	Increase to Property Tax per Dollar Increase in Revenue (Line 25/Line 26)		1.389344%



Arizona Water Company - Cochise (Bisbee, Sierra Vista)  
Docket No. W-01445A-11-0310  
Test Year ended December 31, 2010

**Arizona Water Company Cost of Capital Calculation**  
Capital Structure  
And Weighted Average Cost of Capital  
Staff Recommended and Company Proposed

[A]	[B]	[C]	[D]
<u>Description</u>	<u>Weight (%)</u>	<u>Cost</u>	<u>Weighted Cost</u>
Staff Recommended Structure			
Debt	49.0%	6.8%	3.3000%
Common Equity	51.0%	9.4%	<u>4.8000%</u>
Weighted Average Cost of Capital			<b>8.1000%</b>
Company Proposed Structure <sup>1</sup>			
Debt	49.0%	6.8%	3.3000%
Common Equity	51.0%	12.5%	<u>6.4000%</u>
Weighted Average Cost of Capital			<b>9.7000%</b>

<sup>1</sup> Company Schedule D-1, page 2

[D] : [B] x [C]

Arizona Water Company - San Manuel  
Docket No. W-01445A-11-0310  
Test Year ended December 31, 2010

SURREBUTTAL TESTIMONY OF Jeffrey M. Michlik

TABLE OF CONTENTS TO SCHEDULES

<u>SCH #</u>	<u>TITLE</u>
JMM-1	REVENUE REQUIREMENT
JMM-2	GROSS REVENUE CONVERSION FACTOR
JMM-3	RATE BASE - ORIGINAL COSTS
JMM-4	SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS
JMM-5	ORIGINAL COST RATE BASE ADJUSTMENT # 1 - RUCO RATE BASE ADJUSTMENT
JMM-6	ORIGINAL COST RATE BASE ADJUSTMENT # 2 - NOT USED
JMM-7	ORIGINAL COST RATE BASE ADJUSTMENT # 3 - CASH WORKING CAPITAL
JMM-8	OPERATING INCOME STATEMENT - ADJUSTED TEST YEAR AND STAFF RECOMMENDED
JMM-9	SUMMARY OF OPERATING INCOME STATEMENT ADJUSTMENTS - TEST YEAR
JMM-10	OPERATING INCOME ADJUSTMENT # 1 - REVERSE UNBILLED EXPENSES
JMM-11	OPERATING INCOME ADJUSTMENT # 2 - FLEET FUEL EXPENSE
JMM-12	OPERATING INCOME ADJUSTMENT # 3 - REMOVAL OF PROJECTED EXPENSES
JMM-13	OPERATING INCOME ADJUSTMENT # 4 - WATER TESTING EXPENSE AND RUCO MISCELLANEOUS EXPENSE ADJUSTMENT
JMM-14	OPERATING INCOME ADJUSTMENT # 5 - PURCHASED WATER EXPENSE
JMM-15	OPERATING INCOME ADJUSTMENT # 6 - RATE CASE EXPENSE
JMM-16	OPERATING INCOME ADJUSTMENT # 7 - DEPRECIATION EXPENSE
JMM-17	OPERATING INCOME ADJUSTMENT # 8 - INCOME TAX EXPENSE
JMM-18	OPERATING INCOME ADJUSTMENT # 9 - PROPERTY TAX EXPENSE

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY FAIR VALUE	(B) STAFF FAIR VALUE
1	Adjusted Rate Base	\$ 2,016,750	\$ 2,028,644
2	Adjusted Operating Income (Loss)	\$ (28,824)	\$ 42,933
3	Current Rate of Return (L2 / L1)	-1.43%	2.12%
4	Required Rate of Return	9.72%	8.1%
5	Required Operating Income (L4 * L1)	\$ 195,980	\$ 164,320
6	Operating Income Deficiency (L5 - L2)	\$ 224,804	\$ 121,387
7	Gross Revenue Conversion Factor	1.6567	1.6566
8	Required Revenue Increase (L7 * L6)	\$ 372,441	<b>\$ 201,093</b>
9	Adjusted Test Year Revenue	\$ 947,528	\$ 947,528
10	Proposed Annual Revenue (L8 + L9)	\$ 1,319,969	\$ 1,148,621
11	Required Increase in Revenue (%)	39.31%	21.22%

References:

Column (A): Company Schedule A-1

Column (B): Staff Schedules JMM-3 and JMM-7

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
<u>Calculation of Gross Revenue Conversion Factor:</u>					
1	Revenue	100.0000%			
2	Uncollectible Factor (Line 11)	0.0000%			
3	Revenues (L1 - L2)	100.0000%			
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	39.6366%			
5	Subtotal (L3 - L4)	60.3634%			
6	Revenue Conversion Factor (L1 / L5)	1.656632			
<u>Calculation of Uncollectible Factor:</u>					
7	Unity	100.0000%			
8	Combined Federal and State Tax Rate (Line 23)	38.5989%			
9	One Minus Combined Income Tax Rate (L7 - L8)	61.4011%			
10	Uncollectible Rate	0.0000%			
11	Uncollectible Factor (L9 * L10)	0.0000%			
<u>Calculation of Effective Tax Rate:</u>					
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
13	Arizona State Income Tax Rate	6.9680%			
14	Federal Taxable Income (L12 - L13)	93.0320%			
15	Applicable Federal Income Tax Rate (Line 55)	34.0000%			
16	Effective Federal Income Tax Rate (L14 x L15)	31.6309%			
17	Combined Federal and State Income Tax Rate (L13 + L16)		38.5989%		
<u>Calculation of Effective Property Tax Factor</u>					
18	Unity	100.0000%			
19	Combined Federal and State Income Tax Rate (L17)	38.5989%			
20	One Minus Combined Income Tax Rate (L18-L19)	61.4011%			
21	Property Tax Factor (JMM-17, L27)	1.6900%			
22	Effective Property Tax Factor (L20*L21)		1.0377%		
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			39.6366%	
24	Required Operating Income (Schedule JMM-1, Line 5)	\$ 164,320			
25	Adjusted Test Year Operating Income (Loss)	42,933			
26	Required Increase in Operating Income (L24 - L25)		\$ 121,387		
27	Income Taxes on Recommended Revenue (Col. [E], L52)	\$ 61,213			
28	Income Taxes on Test Year Revenue (Col. [B], L52)	(15,095)			
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		76,308		
30	Recommended Revenue Requirement (Schedule JMM-1, Line 10)	\$ 1,148,621			
31	Uncollectible Rate (Line 10)	0.0000%			
32	Uncollectible Expense on Recommended Revenue (L30*L31)	\$ -			
33	Adjusted Test Year Uncollectible Expense	\$ -			
34	Required Increase in Revenue to Provide for Uncollectible Exp. (L32-L33)				
35	Property Tax with Recommended Revenue (JMM-17, Col B, L31)	\$ 51,438			
36	Property Tax on Test Year Revenue (JMM-17, Col A, L17)	48,040			
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		3,398		
38	Total Required Increase in Revenue (L26 + L29 + L34 + L37)		\$ 201,093		
<u>Calculation of Income Tax:</u>					
39	Revenue (Schedule JMM-7, Col. [C], Line 5 & Sch. JMM-1, Col. [D] Line 10)	\$ 947,528	\$ 201,093	\$ 1,148,621	
40	Operating Expenses Excluding Income Taxes	\$ 919,689		\$ 923,088	
41	Synchronized Interest (L56)	\$ 66,945		\$ 66,945	
42	Arizona Taxable Income (L39 - L40 - L41)	\$ (39,107)		\$ 158,588	
43	Arizona State Income Tax Rate	6.9680%		6.9680%	
44	Arizona Income Tax (L42 x L43)	\$ (2,725)		\$ 11,050	
45	Federal Taxable Income (L42 - L44)	\$ (36,382)		\$ 147,538	
46	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 34%	\$ (12,370)		\$ 17,000	
47	Federal Tax on Second Income Bracket (\$51,001 - \$75,000) @ 34%	\$ -		\$ 8,500	
48	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$ -		\$ 8,500	
49	Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 34%	\$ -		\$ 16,163	
50	Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	\$ -		\$ -	
51	Total Federal Income Tax	\$ (12,370)		\$ 50,163	
52	Combined Federal and State Income Tax (L44 + L51)	\$ (15,095)		\$ 61,213	
53	Applicable Federal Income Tax Rate [Col. [E], L51 - Col. [B], L51] / [Col. [E], L45 - Col. [B], L45]			34.0000%	
<u>Calculation of Interest Synchronization:</u>					
54	Rate Base (Schedule JMM-3, Col. (C), Line 17)	\$ 2,028,644			
55	Weighted Average Cost of Debt	3.3%			
56	Synchronized Interest (L45 X L46)	\$ 66,945			

RATE BASE - ORIGINAL COST

LINE NO.		(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	Adj. No.	(C) STAFF AS ADJUSTED
1	Plant in Service	\$ 4,414,534	\$ 101		\$ 4,414,635
2	Less: Accumulated Depreciation	1,313,974	-		1,313,974
3	Net Plant in Service	<u>\$ 3,100,560</u>	<u>\$ 101</u>		<u>\$ 3,100,661</u>
4					
5	<u>LESS:</u>				
6					
7	Contributions in Aid of Construction (CIAC)	\$ 742,146	\$ -		\$ 742,146
8	Less: Accumulated Amortization	52,037	-		52,037
9	Net CIAC	<u>690,109</u>	<u>-</u>		<u>\$ 690,109</u>
10					
11	Advances in Aid of Construction (AIAC)	61,297	-		61,297
12					
13	Customer Deposits	11,769	-		11,769
14					
15	Deferred Income Tax Credits	416,036	-		416,036
16					
17					
18	<u>ADD:</u>				
19					
20					
21	Working Capital	95,402	11,792	3	107,194
22					
23	Deferred Regulatory Assets	-	-		-
24					
25					
26	<b>Original Cost Rate Base</b>	<u>\$ 2,016,750</u>	<u>\$ 11,894</u>		<u>\$ 2,028,644</u>

References:

Column [A]: Company as Filed  
Column [B]: Schedule JMM-4  
Column (C): Column (A) + Column (B)

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJ #1 Not Used Ref. Sch JMM-5	[C] ADJ #2 Not Used Ref. Sch JMM-6	[D] ADJ #3 Cash Working Capital Ref. Sch JMM-7	[E] STAFF ADJUSTED
<u>PLANT IN SERVICE:</u>							
1			\$ 11	\$ -	\$ -	\$ -	11
2	301	Organization Cost	-	-	-	-	-
3	302	Franchise Cost	-	-	-	-	-
4	303	Other Intangibles	473	-	-	-	473
5	310.1	Water Rights	173,434	-	-	-	173,434
6	310.3	Other Source of Supply Land	1	-	-	-	1
7	310.4	Wells - Other	-	-	-	-	-
8	314	Wells	5,560	-	-	-	5,560
9	320	Pumping Plant Land	7,000	-	-	-	7,000
10	321	Pumping Plant Structures & Improvements	14,110	-	-	-	14,110
11	325	Electric Pumping Equipment	385,648	-	-	-	385,648
12	328	Gas Engine Equipment	-	-	-	-	-
13	330	Water Treatment Plant - Land	2,000	-	-	-	2,000
14	331	Water Treatment Structures and Improvements	42,932	-	-	-	42,932
15	332	Water Treatment Equipment	1,378,353	-	-	-	1,378,353
16	340	Transmission and Distribution - Land	69,500	-	-	-	69,500
17	342	Storage Tanks	98,403	-	-	-	98,403
18	343	Transmission and Distribution Mains	1,209,560	-	-	-	1,209,560
19	344	Fire Sprinkler Taps	100	-	-	-	100
20	345	Services	339,836	-	-	-	339,836
21	346	Meters	122,815	-	-	-	122,815
22	348	Hydrants	74,805	-	-	-	74,805
23	389	General Plant Land	-	-	-	-	-
24	390	General Plant Structures	21,981	-	-	-	21,981
25	390.1	Leasehold Improvements	60,520	-	-	-	60,520
26	391	Office Furniture & Equipment	188,350	-	-	-	188,350
27	393	Warehouse Equipment	4,976	-	-	-	4,976
28	394	Tools, Shops, and Garage Equipment	79,088	(419)	-	-	78,669
29	395	Laboratory Equipment	2,692	-	-	-	2,692
30	396	Power Operated Equipment	2,719	-	-	-	2,719
31	397	Communications Equipment	112,827	520	-	-	112,847
32	398	Miscellaneous Equipment	17,340	-	-	-	17,340
33		Intentionally Left Blank	-	-	-	-	-
34			4,414,534	-	-	-	4,414,535
35			-	-	-	-	-
36		Total Plant in Service	\$ 4,414,534	\$ 101	\$ -	\$ -	\$ 4,414,535
37							
38		Less: Accumulated Depreciation	1,313,974	-	-	-	1,313,974
39							
40		Net Plant in Service	\$ 3,100,560	\$ 101	\$ -	\$ -	\$ 3,100,561
41							
42		<u>LESS:</u>					
43		Contributions in Aid of Construction (CIAC)	\$ 742,146	-	-	-	\$ 742,146
44		Less: Accumulated Amortization	52,037	-	-	-	52,037
45		Net CIAC (L25 - L26)	690,109	-	-	-	690,109
46		Advances in Aid of Construction (AIAC)	61,297	-	-	-	61,297
47		Customer Deposits	11,769	-	-	-	11,769
48		Deferred Income Taxes	416,036	-	-	-	416,036
49							
50							
51		<u>ADD:</u>					
52		Working Capital	95,402	-	-	11,792	107,194
53		Deferred Regulatory Assets	-	-	-	-	-
54							
55		Original Cost Rate Base	\$ 2,016,750	\$ 101	\$ -	\$ 11,792	\$ 2,028,644

RATE BASE ADJUSTMENT NO. 1 - RUCO RATE BASE ADJUSTMENT

LINE NO.	ACCT NO.	DESCRIPTION	[A]		[B]		[C]	
			COMPANY PROPOSED		STAFF ADJUSTMENTS		STAFF RECOMMENDED	
1		Phoenix Meter Shop						
2	394	Tools, Shops, and Garage Equipment	\$	79,088	\$	(419)	\$	78,669
3	397	Communications Equipment		112,327		520		112,847
4			\$	191,415	\$	101	\$	191,516
5								

REFERENCES:

Column [A]: Company Filing  
Column [B]: Testimony JMM  
Column [C]: Column [A] + Column [B]

Arizona Water Company - San Manuel  
Docket No. W-01445A-11-0310  
Test Year ended December 31, 2010

Surrebuttal Schedule JMM-6

RATE BASE ADJUSTMENT NO. 2 - NOT USED



RATE BASE ADJUSTMENT NO. 3 - CASH WORKING CAPITAL

LINE NO.	ACCT NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED	[D]	[E]	[F]
1		Working Capital	\$ 95,402	\$ 11,792	\$ 107,194			
2								
3								
4								
5			Test Year					
6			Adjusted	Revenue	Expense	Net	Lead / Lag	Working Cash
7			Results			Lag Days	Factor	Requirement
8						[B - C]	[D + 365]	[A X E]
8		Staff's Calculation						
9		Purchased Power	\$ 34,138	30.15	30.87	(0.72)	(0.0020)	\$ (67)
10		Payroll	218,739	30.15	14.00	16.15	0.0443	9,680
11		Purchased Water	34,138	30.15	26.04	4.11	0.0113	385
12		Chemicals	3,034	30.15	(18.11)	48.26	0.1322	401
13		Property & Liability Insurance	9,086	30.15	(45.27)	75.42	0.2066	1,878
14		Workman's Compensation Insurance	2,078	30.15	(46.50)	76.65	0.2100	436
15		Health Insurance	33,958	30.15	(8.92)	39.07	0.1070	3,635
16		Other O&M (Excluding Rate Case Expense)	378,929	30.15	(9.27)	39.42	0.1080	40,926
17		Federal Income Taxes	50,163	30.15	37.00	(6.85)	(0.0188)	(941)
18		State Income Taxes	11,050	30.15	37.00	(6.85)	(0.0188)	(207)
19		FICA Taxes	16,443	30.15	14.00	16.15	0.0443	728
20		FUTA & SUTA Taxes	545	30.15	83.10	(52.95)	(0.1451)	(79)
21		Property Taxes	51,438	30.15	212.00	(181.85)	(0.4982)	(25,627)
22		Registration, Svc. Contracts, & Misc. Fees	8,929	30.15	(98.83)	128.98	0.3534	3,155
23		Retirement Annuities (401k)	17,408	30.15	34.72	(4.57)	(0.0125)	(218)
24								
25								
26			\$ 870,078					\$ 34,084
27		Subtotal						
28								
29		Interest Expense	67,481	30.15	91.25	(61.10)	(0.1674)	(11,296)
30		Cost of Equity	-		-	-	-	-
31								
32		Subtotal	\$ 67,481					\$ (11,296)
33								
34								
35		Total	937,560					\$ 22,789
36								
37		Company Cash Working Capital						\$ 10,997
38								
39		Increase/(Decrease)						\$ 11,792

REFERENCES:

Column [A]: Company Filing  
Column [B]: Direct Testimony JMM  
Column [C]: Column [A] + Column [B]

OPERATING INCOME STATEMENT - ADJUSTED TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY ADJUSTED TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF PROPOSED CHANGES	[E] STAFF RECOMMENDED
1	<u>OPERATING REVENUES:</u>					
2	Residential	\$ 763,810	\$ -	\$ 763,810	\$ 201,093	\$ 964,903
3	Commercial	159,464	-	159,464	-	159,464
4	Industrial	-	-	-	-	-
5	Private Fire Service	287	-	287	-	287
6	Other Water Revenues	8,639	-	8,639	-	8,639
7	Total Water Revenues	\$ 932,200	\$ -	\$ 932,200	\$ 201,093	\$ 1,133,293
8						
9	Miscellaneous	15,328.00	-	15,328.00	-	15,328
10	Total Operating Revenues	\$ 947,528	\$ -	\$ 947,528	\$ 201,093	\$ 1,148,621
11						
12	<u>OPERATING EXPENSES:</u>					
13	Source of Supply Expenses					
14	Purchased Water	\$ 372,967	\$ (82,364)	\$ 290,603	\$ -	\$ 290,603
15	Other	2,637	(58)	2,579	-	2,579
16	Pumping Expenses					
17	Purchased Power	34,056	82	34,138	-	34,138
18	Purchased Gas	-	-	-	-	-
19	Other	49,207	(3,972)	45,235	-	45,235
20	Water Treatment Expenses	55,225	(9,616)	45,609	-	45,609
21	Transmission and Distribution Expenses	103,578	(14,533)	89,045	-	89,045
22	Customer Accounting Expenses	109,168	(1,576)	107,592	-	107,592
23	Sales Expense	-	-	-	-	-
24	Administrative and General Expenses	134,260	(5,002)	129,258	-	129,258
25	Total Operation and Maintenance Expense	861,098	(117,039)	744,059	-	744,059
26						
27	Depreciation and Amortization Expenses	112,938	18	112,956	-	112,956
28						
29	Taxes					
30	Federal Income Taxes	(49,612)	37,242	(12,370)	62,533	50,163
31	State Income Taxes	(10,929)	8,204	(2,725)	13,775	11,050
32	Property Taxes	48,221	(181)	48,040	3,398	51,438
33	Other	14,635	-	14,635	-	14,635
34	Total Taxes	2,315	45,265	47,580	79,706	127,286
35		-	-	-	-	-
36		-	-	-	-	-
37	Total Operating Expenses	976,351	-	904,595	79,706	984,301
38						
39	Operating Income (Loss)	\$ (28,824)	\$ 71,757	\$ 42,933	\$ 121,387	\$ 164,320

References:

Column (A): Company Schedule C-1  
Column (B): Schedule JMM-9  
Column (C): Column (A) + Column (B)  
Column (D): Schedules JMM-17 and JMM-18  
Column (E): Column (C) + Column (D)

LINE NO.	ACCT. NO.	DESCRIPTION
1		<u>OPERATING REVENUES:</u>
2		Residential
3		Commercial
4		Industrial
5		Private Fire Service
6		Other Water Revenues
7		Total Water Revenues
8		Miscellaneous
9		Total Operating Revenues
10		<u>OPERATING EXPENSES:</u>
11		Source of Supply Expenses
12		Purchased Water
13		Pumping Expenses
14		Purchased Power
15		Purchased Gas
16		Other
17		Water Treatment Expenses
18		Transmission and Distribution Expenses
19		Sales Expense
20		Administrative and General Expenses
21		Total Operation and Maintenance Expense
22		Depreciation and Amortization Expenses
23		Taxes
24		Federal Income Taxes
25		State Income Taxes
26		Property Taxes
27		Other
28		Total Taxes
29		Total Operating Expenses
30		Operating Income (Loss)

OPERATING INCOME ADJUSTMENT NO. 1 - REVERSE UNBILLED EXPENSES

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF <sup>1</sup> RECOMMENDED
1	Residential	\$ 763,810	\$ -	\$ 763,810
2	Commercial	159,464	-	159,464
3	Industrial	-	-	-
4	Revenue Adjustments	\$ 923,274	\$ -	\$ 923,274
5				
6	Source Supply - Other	\$ 2,589	\$ -	\$ 2,589
7	Unbilled Expenses	48	(48)	-
8	Total Source Supply - Other	\$ 2,637	\$ (48)	\$ 2,589
9				
10	Purchased Power	\$ 34,138	\$ -	\$ 34,138
11	Unbilled Expenses	(82)	82	-
12	Total Purchased Power	\$ 34,056	\$ 82	\$ 34,138
13				
14	Pumping Expense - Other	\$ 49,213	\$ -	\$ 49,213
15	Unbilled Expenses	(6)	6	-
16	Total Pumping Expense - Other	\$ 49,207	\$ 6	\$ 49,213
17				
18	Water Treatment Expenses	\$ 55,148	\$ -	\$ 55,148
19	Unbilled Expenses	77	(77)	-
20	Total Water Treatment Expenses	\$ 55,225	\$ (77)	\$ 55,148
21				
22	Transmission and Distribution Expenses	\$ 102,263	\$ -	\$ 102,263
23	Unbilled Expenses	1,315	(1,315)	-
24	Total Transmission and Distribution Expenses	\$ 103,578	\$ (1,315)	\$ 102,263
25				
26	Customer Accounting Expenses	\$ 107,676	\$ -	\$ 107,676
27	Unbilled Expenses	1,492	(1,492)	-
28	Total Customer Accounting Expenses	\$ 109,168	\$ (1,492)	\$ 107,676
29				
30	Administrative and General Expenses	\$ 133,841	\$ -	\$ 133,841
31	Unbilled Expenses	419	(419)	-
32	Total Administrative and General Expenses	\$ 134,260	\$ (419)	\$ 133,841
33				
34	Total Expense Adjustments	\$ 488,131	\$ (3,263)	\$ 484,868

<sup>1</sup> Amounts do not reflect other adjustments.

References:

Column (A), Company Schedule C-1

Column (B): Testimony JMM

Column (C): Column (A) + Column (B)

OPERATING INCOME ADJUSTMENT NO. 2 - FLEET FUEL EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF <sup>1</sup> RECOMMENDED
1	Source Supply - Other	\$ 947,481	\$ -	\$ 947,481
2	Fleet Fuel Expenses	47	(9)	38
3	Total Source Supply - Other	\$ 947,528	\$ (9)	\$ 947,519
4				
5	Pumping Expense - Other	\$ 48,730	\$ -	\$ 48,730
6	Fleet Fuel Expenses	477	(95)	381
7	Total Pumping Expense - Other	\$ 49,207	\$ (95)	\$ 49,112
8				
9	Water Treatment Expenses	\$ 55,077	\$ -	\$ 55,077
10	Fleet Fuel Expenses	148	(30)	118
11	Total Water Treatment Expenses	\$ 55,225	\$ (30)	\$ 55,195
12				
13	Transmission and Distribution Expenses	\$ 70,860	\$ -	\$ 70,860
14	Fleet Fuel Expenses	32,718	(312)	32,406
15	Total Transmission and Distribution Expenses	\$ 103,578	\$ (312)	\$ 103,266
16				
17	Customer Accounting Expenses	\$ 100,349	\$ -	\$ 100,349
18	Fleet Fuel Expenses	8,819	(84)	8,735
19	Total Customer Accounting Expenses	\$ 109,168	\$ (84)	\$ 109,084
20				
21	Administrative and General Expenses	\$ 134,108	\$ -	\$ 134,108
22	Fleet Fuel Expenses	152	(30)	122
23	Total Administrative and General Expenses	\$ 134,260	\$ (30)	\$ 134,230
24				
25	Total Expense Adjustments	\$ 1,398,966	\$ (561)	\$ 1,398,405
26				
27				
28	Staff's Calculation based on the most recent 12 month gas price of \$ 3.38			
29				
30		Company Pro-forma	Staff's Recalculation	Reduction
31	Source Supply - Other	\$ 47	\$ 38	\$ 9
32	Pumping Expenses Other	477	381	95
33	Water Treatment Expenses	148	118	30
34	Transmission and Distribution Expenses	1,556	1,245	312
35	Customer Accounting Expenses	419	335	84
36	Administrative and General Expenses	152	122	30
37	Totals	\$ 2,800	\$ 2,239	\$ 561

<sup>1</sup> Amounts do not reflect other adjustments.

References:

Column (A), Company Schedule C-1

Column (B): Testimony JMM

Column (C): Column (A) + Column (B)

OPERATING INCOME ADJUSTMENT NO. 3 - REMOVAL OF PROJECTED EXPENSES

LINE NO.	DESCRIPTION	[A]		[B]		[C]	
		COMPANY PROPOSED		STAFF ADJUSTMENTS		STAFF <sup>1</sup> RECOMMENDED	
1	Pumping Expenses - Other	\$	45,324	\$	-	\$	45,324
2	Normalization of Pumping Expenses		3,883		(3,883)	\$	(0)
3	Total Pumping Expense - Other	\$	49,207	\$	(3,883)	\$	45,324
4							
5	Transmission and Distribution Expenses	\$	90,672	\$	-	\$	90,672
6	Normalization of Transmission and Distribution Expenses		12,906		(12,906)		0
7	Total Transmission and Distribution Expenses	\$	103,578	\$	(12,906)	\$	90,672

<sup>1</sup> Amounts do not reflect other adjustments.

References:

Column (A), Company Schedule C-1  
Column (B): Testimony JMM  
Column (C): Column (A) + Column (B)

OPERATING INCOME ADJUSTMENT NO. 4 - WATER TESTING EXPENSE AND RUCO MISCELLANEOUS EXPENSE ADJUSTMENT

LINE NO.	DESCRIPTION	[A]		[B]		[C]	
		COMPANY PROPOSED		STAFF ADJUSTMENTS		STAFF <sup>1</sup> RECOMMENDED	
1	Water Treatment Expenses	\$	55,225	\$	(9,510)	\$	45,715
2	Administrative and General Expenses		134,260		(462)		133,798
		\$	189,485	\$	(9,972)	\$	179,513

<sup>1</sup> Amounts do not reflect other adjustments.

References:

Column (A), Company Schedule C-1

Column (B): Testimony JMM

Column (C): Column (A) + Column (B)

OPERATING INCOME ADJUSTMENT NO. 5 - WATER TESTING EXPENSE AND RUCO MISCELLANEOUS EXPENSE ADJUSTMENT

LINE NO.	DESCRIPTION	[A]		[B]		[C]	
		COMPANY PROPOSED		STAFF ADJUSTMENTS		STAFF <sup>1</sup> RECOMMENDED	
1	Purchased Water	\$	372,967	\$	(82,364)	\$	290,603

<sup>1</sup> Amounts do not reflect other adjustments.

References:

Column (A): Company Schedule C-1  
Column (B): Testimony JMM  
Column (C): Column (A) + Column (B)



OPERATING INCOME ADJUSTMENT NO. 6 - RATE CASE EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF <sup>1</sup> RECOMMENDED
1	Administrative and General Expenses	\$ 127,709	\$ -	\$ 127,709
2	Rate Case Expense Pro Forma	6,551	(4,091)	2,460
3	Total Administrative and General	\$ 134,260	\$ (4,091)	\$ 130,169

Staff's Calculation of Rate Case Expense for Pinal Valley

Line No.	System	[A] T.Y. 2010 Rate Case Expense Estimate / Spread	[B] Average Number of Customers	[C] T.Y. 2010 Prior Rate Case Expense Charged to O&M - 928.2	[E] Increase / (Decrease)
1	All Systems				
2					
3	Pinal Valley	206,277.86	28,030		
4	White Tank	14,177.38	1,927		
5	Ajo	4,997.47	679		
6	Superstition	175,085.54	23,792		
7	Cochise	47,130.98	6,404		
8	San Manuel	10,860.25	1,476		
9	Oracle	11,189.57	1,521		
10	SaddleBrooke Ranch	651.28	89		
11	Winkelman	1,152.32	157		
12	Navajo	66,897.02	9,090		
13	Verde Valley	77,779.34	10,569		
14		616,199	83,733		
15					
16	Rate Case Expense Incurred Last Time				
17		\$ 616,199			
18	Company Proposed Rate Case Expense Pro Forma				
19					
20	Staff Adjustment to Rate Case Expense				
				\$ 1,160	\$ 2,460
					\$ 6,551
					\$ (4,091)

<sup>1</sup> Amounts do not reflect other adjustments.

References:

Column (A): Company Schedule C-1  
Column (B): Testimony JMM  
Column (C): Column (A) + Column (B)

OPERATING INCOME ADJUSTMENT NO. 7 - DEPRECIATION EXPENSE ON TEST YEAR PLANT

LINE NO.	ACCT NO.	DESCRIPTION	[A] PLANT In SERVICE Per Staff	[B] NonDepreciable or Fully Depreciated PLANT	[C] DEPRECIABLE PLANT (Col A - Col B)	[D] DEPRECIATION RATE	[E] DEPRECIATION EXPENSE (Col C x Col D)
1	301	Organization Cost	\$ 11	\$ 11	\$ -	0.00%	\$ -
2	302	Franchise Cost	\$ -	\$ -	\$ -	4.00%	\$ -
3	303	Other Intangibles	\$ 473	\$ -	\$ 473	5.07%	\$ 24
4	310.1	Water Rights	\$ 173,434	\$ -	\$ 173,434	0.00%	\$ -
5	310.3	Other Source of Supply Land	\$ 1	\$ -	\$ 1	0.00%	\$ -
6	310.4	Wells - Other	\$ -	\$ -	\$ -	2.50%	\$ -
7	314	Wells	\$ 5,560	\$ -	\$ 5,560	3.13%	\$ 174
8	320	Pumping Plant Land	\$ 7,000	\$ -	\$ 7,000	0.00%	\$ -
9	321	Pumping Plant Structures & Improvements	\$ 14,110	\$ -	\$ 14,110	2.86%	\$ 404
10	325	Electric Pumping Equipment	\$ 385,648	\$ -	\$ 385,648	5.88%	\$ 22,676
11	328	Gas Engine Equipment	\$ -	\$ -	\$ -	4.00%	\$ -
12	330	Water Treatment Plant - Land	\$ 2,000	\$ -	\$ 2,000	0.00%	\$ -
13	331	Water Treatment Structures and Improvements	\$ 42,932	\$ -	\$ 42,932	2.50%	\$ 1,073
14	332	Water Treatment Equipment	\$ 1,378,353	\$ -	\$ 1,378,353	2.86%	\$ 39,421
15	340	Transmission and Distribution - Land	\$ 69,500	\$ -	\$ 69,500	0.00%	\$ -
16	342	Storage Tanks	\$ 98,403	\$ -	\$ 98,403	2.00%	\$ 1,968
17	343	Transmission and Distribution Mains	\$ 1,209,560	\$ -	\$ 1,209,560	1.79%	\$ 21,651
18	344	Fire Sprinkler Taps	\$ 100	\$ -	\$ 100	2.00%	\$ 2
19	345	Services	\$ 339,836	\$ -	\$ 339,836	2.38%	\$ 8,088
20	346	Meters	\$ 122,815	\$ -	\$ 122,815	4.55%	\$ 5,588
21	348	Hydrants	\$ 74,805	\$ -	\$ 74,805	1.82%	\$ 1,361
22	389	General Plant Land	\$ -	\$ -	\$ -	0.00%	\$ -
23	390	General Plant Structures	\$ 21,981	\$ -	\$ 21,981	2.50%	\$ 550
24	390.1	Leasehold Improvements	\$ 60,520	\$ -	\$ 60,520	0.73%	\$ 440
25	391	Office Furniture & Equipment	\$ 188,350	\$ -	\$ 188,350	6.67%	\$ 12,563
26	393	Warehouse Equipment	\$ 4,976	\$ -	\$ 4,976	5.00%	\$ 249
27	394	Tools, Shops, and Garage Equipment	\$ 78,669	\$ -	\$ 78,669	4.00%	\$ 3,147
28	395	Laboratory Equipment	\$ 2,692	\$ -	\$ 2,692	5.00%	\$ 135
29	396	Power Operated Equipment	\$ 2,719	\$ -	\$ 2,719	6.67%	\$ 181
30	397	Communications Equipment	\$ 112,847	\$ -	\$ 112,847	6.67%	\$ 7,527
31	398	Miscellaneous Equipment	\$ 17,340	\$ -	\$ 17,340	3.33%	\$ 577
32		Intentionally Left Blank					
33		Total Plant	\$ 4,414,635	\$ 11	\$ 4,414,625		\$ 127,799
34							
35		Composite Depreciation Rate (Depr Exp / Depreciable Plant):	2.00%				
36		CIAC:	\$ 742,146				
37		Amortization of CIAC (Line 35 x Line 36):	\$ 14,843				
38							
39		Depreciation Expense Before Amortization of CIAC:	\$ 127,799				
40		Less Amortization of CIAC:	\$ 14,843				
41		Test Year Depreciation Expense - Staff:	\$ 112,956				
42		Depreciation Expense - Company:	\$ 112,938				
43		Staff's Total Adjustment:	\$ 18				

References:

Column [A]: Schedule JMM-4  
Column [B]: From Column [A]  
Column [C]: Column [A] - Column [B]  
Column [D]: Engineering Staff Report  
Column [E]: Column [C] x Column [D]

Arizona Water Company - San Manuel  
Docket No. W-01445A-11-0310  
Test Year ended December 31, 2010

Surrebuttal Schedule JMM-17

OPERATING INCOME ADJUSTMENT NO. 8 - TEST YEAR INCOME TAXES

LINE NO.	DESCRIPTION	COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1	Federal Income Taxes	\$ (49,612)	\$ 37,242	\$ (12,370)
2	State Income Taxes	(10,929)	8,204	(2,725)
3	Federal and State Income Taxes	\$ (60,541)	\$ 45,446	\$ (15,095)

References:

Column (A), Company Schedule C-1  
Column (B): Column (C) - Column (A)  
Column (C): Schedule JMM-2

OPERATING INCOME ADJUSTMENT NO. 9 - PROPERTY TAX EXPENSE

LINE NO.		[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
	Property Tax Calculation		
1	Staff Adjusted Test Year Revenues	\$ 947,528	\$ 947,528
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	1,895,056	\$ 1,895,056
4	Staff Recommended Revenue, Per Schedule JMM-1	947,528	\$ 1,148,621
5	Subtotal (Line 4 + Line 5)	2,842,584	3,043,677
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	947,528	\$ 1,014,559
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	1,895,056	\$ 2,029,118
10	Plus: 10% of CWIP -	-	-
11	Less: Net Book Value of Licensed Vehicles	-	\$ -
12	Full Cash Value (Line 9 + Line 10 - Line 11)	1,895,056	\$ 2,029,118
13	Assessment Ratio	20.5%	20.5%
14	Assessment Value (Line 12 * Line 13)	388,486	\$ 415,969
15	Composite Property Tax Rate (Per Company Schedule)	12.3658%	12.3658%
16			
17	Staff Test Year Adjusted Property Tax (Line 14 * Line 15)	\$ 48,040	
18	Company Proposed Property Tax	48,221	
19			
20	Staff Test Year Adjustment (Line 17-Line 18)	\$ (181)	
21	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		\$ 51,438
22	Staff Test Year Adjusted Property Tax Expense (Line 17)		\$ 48,040
23	Increase in Property Tax Expense Due to Increase in Revenue Requirement		\$ 3,398
24			
25	Increase to Property Tax Expense		\$ 3,398
26	Increase in Revenue Requirement		201,093
27	Increase to Property Tax per Dollar Increase in Revenue (Line 25/Line 26)		1.689997%

Arizona Water Company - San Manuel  
Docket No. W-01445A-11-0310  
Test Year ended December 31, 2010

**Arizona Water Company Cost of Capital Calculation**  
**Capital Structure**  
**And Weighted Average Cost of Capital**  
**Staff Recommended and Company Proposed**

[A]	[B]	[C]	[D]
<u>Description</u>	<u>Weight (%)</u>	<u>Cost</u>	<u>Weighted Cost</u>
Staff Recommended Structure			
Debt	49.0%	6.8%	3.3000%
Common Equity	51.0%	9.4%	<u>4.8000%</u>
Weighted Average Cost of Capital			<b>8.1000%</b>
Company Proposed Structure <sup>1</sup>			
Debt	49.0%	6.8%	3.3000%
Common Equity	51.0%	12.5%	<u>6.4000%</u>
Weighted Average Cost of Capital			<b>9.7000%</b>

<sup>1</sup> Company Schedule D-1, page 2

[D] : [B] x [C]

SURREBUTTAL TESTIMONY OF Jeffrey M. Michlik

TABLE OF CONTENTS TO SCHEDULES

<u>SCH #</u>	<u>TITLE</u>
JMM-1	REVENUE REQUIREMENT
JMM-2	GROSS REVENUE CONVERSION FACTOR
JMM-3	RATE BASE - ORIGINAL COSTS
JMM-4	SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS
JMM-5	ORIGINAL COST RATE BASE ADJUSTMENT # 1 - RUCO RATE BASE ADJUSTMENT
JMM-6	ORIGINAL COST RATE BASE ADJUSTMENT # 2 - NOT USED
JMM-7	ORIGINAL COST RATE BASE ADJUSTMENT # 3 - CASH WORKING CAPITAL
JMM-8	OPERATING INCOME STATEMENT - ADJUSTED TEST YEAR AND STAFF RECOMMENDED
JMM-9	SUMMARY OF OPERATING INCOME STATEMENT ADJUSTMENTS - TEST YEAR
JMM-10	OPERATING INCOME ADJUSTMENT # 1 - REVERSE UNBILLED EXPENSES
JMM-11	OPERATING INCOME ADJUSTMENT # 2 - FLEET FUEL EXPENSE
JMM-12	OPERATING INCOME ADJUSTMENT # 3 - REMOVAL OF PROJECTED EXPENSES
JMM-13	OPERATING INCOME ADJUSTMENT # 4 - RUCO MISCELLANEOUS EXPENSE ADJUSTMENT
JMM-14	OPERATING INCOME ADJUSTMENT # 5 - NOT USED
JMM-15	OPERATING INCOME ADJUSTMENT # 6 - RATE CASE EXPENSE
JMM-16	OPERATING INCOME ADJUSTMENT # 7 - DEPRECIATION EXPENSE
JMM-17	OPERATING INCOME ADJUSTMENT # 8 - INCOME TAX EXPENSE
JMM-18	OPERATING INCOME ADJUSTMENT # 9 - PROPERTY TAX EXPENSE

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY FAIR VALUE	(B) STAFF FAIR VALUE
1	Adjusted Rate Base	\$ 2,470,183	\$ 2,482,015
2	Adjusted Operating Income (Loss)	\$ 163,349	\$ 186,718
3	Current Rate of Return (L2 / L1)	6.61%	7.52%
4	Required Rate of Return	9.72%	8.1%
5	Required Operating Income (L4 * L1)	\$ 240,043	\$ 201,043
6	Operating Income Deficiency (L5 - L2)	\$ 76,693	\$ 14,326
7	Gross Revenue Conversion Factor	1.6508	1.6519
8	Required Revenue Increase (L7 * L6)	\$ 126,601	<b>\$ 23,664</b>
9	Adjusted Test Year Revenue	\$ 990,109	\$ 990,109
10	Proposed Annual Revenue (L8 + L9)	\$ 1,116,710	\$ 1,013,773
11	Required Increase in Revenue (%)	12.79%	2.39%

References:

Column (A): Company Schedule A-1

Column (B): Staff Schedules JMM-3 and JMM-7

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
<u>Calculation of Gross Revenue Conversion Factor:</u>					
1	Revenue	100.0000%			
2	Uncollectible Factor (Line 11)	0.0000%			
3	Revenues (L1 - L2)	100.0000%			
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	39.4635%			
5	Subtotal (L3 - L4)	60.5365%			
6	Revenue Conversion Factor (L1 / L5)	1.651897			
<u>Calculation of Uncollectible Factor:</u>					
7	Unity	100.0000%			
8	Combined Federal and State Tax Rate (Line 23)	38.5989%			
9	One Minus Combined Income Tax Rate (L7 - L8)	61.4011%			
10	Uncollectible Rate	0.0000%			
11	Uncollectible Factor (L9 * L10)	0.0000%			
<u>Calculation of Effective Tax Rate:</u>					
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
13	Arizona State Income Tax Rate	6.9680%			
14	Federal Taxable Income (L12 - L13)	93.0320%			
15	Applicable Federal Income Tax Rate (Line 55)	34.0000%			
16	Effective Federal Income Tax Rate (L14 x L15)	31.6309%			
17	Combined Federal and State Income Tax Rate (L13 + L16)		38.5989%		
<u>Calculation of Effective Property Tax Factor</u>					
18	Unity	100.0000%			
19	Combined Federal and State Income Tax Rate (L17)	38.5989%			
20	One Minus Combined Income Tax Rate (L18-L19)	61.4011%			
21	Property Tax Factor (JMM-17, L27)	1.4082%			
22	Effective Property Tax Factor (L20*L21)		0.8646%		
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			39.4635%	
24	Required Operating Income (Schedule JMM-1, Line 5)	\$ 201,043			
25	Adjusted Test Year Operating Income (Loss)	186,718			
26	Required Increase in Operating Income (L24 - L25)		\$ 14,326		
27	Income Taxes on Recommended Revenue (Col. [E], L52)	\$ 74,893			
28	Income Taxes on Test Year Revenue (Col. [B], L52)	65,888			
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)			9,006	
30	Recommended Revenue Requirement (Schedule JMM-1, Line 10)	\$ 1,013,773			
31	Uncollectible Rate (Line 10)	0.0000%			
32	Uncollectible Expense on Recommended Revenue (L30*L31)	\$ -			
33	Adjusted Test Year Uncollectible Expense	\$ -			
34	Required Increase in Revenue to Provide for Uncollectible Exp. (L32-L33)				
35	Property Tax with Recommended Revenue (JMM-17, Col B, L31)	\$ 42,161			
36	Property Tax on Test Year Revenue (JMM-17, Col A, L17)	41,828			
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)			333	
38	Total Required Increase in Revenue (L26 + L29 + L34 + L37)		\$ 23,664		
<u>Calculation of Income Tax:</u>					
39	Revenue (Schedule JMM-7, Col. [C], Line 5 & Sch. JMM-1, Col. [D] Line 10)	\$ 990,109	\$ 23,664	\$ 1,013,773	
40	Operating Expenses Excluding Income Taxes	\$ 737,503		\$ 737,837	
41	Synchronized Interest (L56)	\$ 81,907		\$ 81,907	
42	Arizona Taxable Income (L39 - L40 - L41)	\$ 170,699		\$ 194,030	
43	Arizona State Income Tax Rate	6.9680%		6.9680%	
44	Arizona Income Tax (L42 x L43)	\$ 11,894		\$ 13,520	
45	Federal Taxable Income (L42 - L44)	\$ 158,805		\$ 180,510	
46	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 34%	\$ 17,000		\$ 17,000	
47	Federal Tax on Second Income Bracket (\$51,001 - \$75,000) @ 34%	\$ 8,500		\$ 8,500	
48	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$ 8,500		\$ 8,500	
49	Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 34%	\$ 19,994		\$ 27,373	
50	Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	\$ -		\$ -	
51	Total Federal Income Tax	\$ 53,994		\$ 61,373	
52	Combined Federal and State Income Tax (L44 + L51)	\$ 65,888		\$ 74,893	
53	Applicable Federal Income Tax Rate [Col. [E], L51 - Col. [B], L51] / [Col. [E], L45 - Col. [B], L45]			34.0000%	
<u>Calculation of Interest Synchronization:</u>					
54	Rate Base (Schedule JMM-3, Col. (C), Line 17)	\$ 2,482,015			
55	Weighted Average Cost of Debt	3.3%			
56	Synchronized Interest (L45 X L46)	\$ 81,907			



RATE BASE - ORIGINAL COST

LINE NO.		(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	Adj. No.	(C) STAFF AS ADJUSTED
1	Plant in Service	\$ 7,436,010	\$ 29,823	1	\$ 7,465,833
2	Less: Accumulated Depreciation	2,829,383	-		2,829,383
3	Net Plant in Service	<u>\$ 4,606,627</u>	<u>\$ 29,823</u>		<u>\$ 4,636,450</u>
4					
5	<u>LESS:</u>				
6					
7	Contributions in Aid of Construction (CIAC)	\$ 1,006,130	\$ -		\$ 1,006,130
8	Less: Accumulated Amortization	140,146	-		\$ 140,146
9	Net CIAC	<u>865,984</u>	<u>-</u>		<u>\$ 865,984</u>
10					
11	Advances in Aid of Construction (AIAC)	814,160	-		814,160
12					
13	Customer Deposits	12,126	-		12,126
14					
15	Deferred Income Tax Credits	517,509	-		517,509
16					
17					
18	<u>ADD:</u>				
19					
20					
21	Working Capital	73,335	(17,991)	3	55,344
22					
23	Deferred Regulatory Assets	-	-		-
24					
25					
26	Original Cost Rate Base	<u>\$ 2,470,183</u>	<u>\$ 11,832</u>		<u>\$ 2,482,015</u>

References:

Column [A]: Company as Filed  
Column [B]: Schedule JMM-4  
Column (C): Column (A) + Column (B)

Arizona Water Company - Oracle  
Docket No. W-01445A-11-0310  
Test Year ended December 31, 2010

## SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] RUCO Adjustment Ref: Sch JMM-5	[C] ADJ #2 Not Used Ref: Sch JMM-5	[D] ADJ #3 Cash Working Capital Ref: Sch JMM-7	[E] STAFF ADJUSTED
1			\$ 13				13
2	301	Organization Cost					
3	302	Franchise Cost					
4	303	Other Intangibles	591				591
5	310.1	Water Rights	129,139				129,139
6	310.3	Other Source of Supply Land	24,695				24,695
7	310.4	Wells - Other					
8	314	Wells	480,265				480,265
9	320	Pumping Plant Land	2,742				2,742
10	321	Pumping Plant Structures & Improvements	91,283				91,283
11	325	Electric Pumping Equipment	888,754				888,754
12	328	Gas Engine Equipment					
13	330	Water Treatment Plant - Land					
14	331	Water Treatment Structures and Improvements	35,054				35,054
15	332	Water Treatment Equipment	71,579				71,579
16	340	Transmission and Distribution - Land	19,680				19,680
17	342	Storage Tanks	306,126				306,126
18	343	Transmission and Distribution Mains	3,927,134	64,895			3,992,029
19	344	Fire Sprinkler Taps					
20	345	Services	719,561	(35,198)			684,363
21	346	Meters	112,379				112,379
22	348	Hydrants	158,971				158,971
23	389	General Plant Land					
24	390	General Plant Structures	147,431				147,431
25	390.1	Leasehold Improvements	31,479				31,479
26	391	Office Furniture & Equipment	103,350				103,350
27	393	Warehouse Equipment	1,991				1,991
28	394	Tools, Shops, and Garage Equipment	29,686	(522)			29,164
29	395	Laboratory Equipment	238				238
30	396	Power Operated Equipment	1,161				1,161
31	397	Communications Equipment	147,864	647			148,511
32	398	Miscellaneous Equipment	4,845				4,845
33		Intentionally Left Blank					
34			7,436,010				7,465,833
35							
36		Total Plant in Service	\$ 7,436,010	\$ 29,823	\$ -	\$ -	\$ 7,465,833
37							
38		Less: Accumulated Depreciation	2,829,383				2,829,383
39							
40		Net Plant in Service	\$ 4,606,627	\$ 29,823	\$ -	\$ -	\$ 4,636,450
41							
42		LESS:					
43		Contributions in Aid of Construction (CIAC)	\$ 1,006,130		\$ -	\$ -	\$ 1,006,130
44		Less: Accumulated Amortization	140,146				140,146
45		Net CIAC (L25 - L26)	865,984				865,984
46		Advances in Aid of Construction (AIAC)	814,160				814,160
47		Customer Deposits	12,126				12,126
48		Deferred Income Taxes	517,509				517,509
49							
50		ADD:					
51		Working Capital	73,335			(17,991)	55,344
52		Deferred Regulatory Assets					
53							
54		Original Cost Rate Base	\$ 2,470,183	\$ 29,823	\$ -	\$ (17,991)	\$ 2,482,015
55							

RATE BASE ADJUSTMENT NO. 1 - RUCO RATE BASE ADJUSTMENT

LINE NO.	ACCT NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	343	Transmission and Distribution Mains	\$ 3,927,134	\$ 64,895	\$ 3,992,029
2	345	Services	719,561	(35,198)	684,363
3			<u>\$ 4,646,695</u>	<u>\$ 29,697</u>	<u>\$ 4,676,392</u>
4					
5		Phoenix Meter Shop			
6	394	Tools, Shops, and Garage Equipment	\$ 29,686	\$ (522)	\$ 29,164
7	397	Communications Equipment	147,864	647	148,511
8			<u>\$ 177,550</u>	<u>\$ 126</u>	<u>\$ 177,676</u>
9					

REFERENCES:

Column [A]: Company Filing  
Column [B]: Testimony JMM  
Column [C]: Column [A] + Column [B]

Arizona Water Company - Oracle  
Docket No. W-01445A-11-0310  
Test Year ended December 31, 2010

Surrebuttal Schedule JMM-6

RATE BASE ADJUSTMENT NO. 2 - NOT USED

RATE BASE ADJUSTMENT NO. 3 - CASH WORKING CAPITAL

LINE NO.	ACCT NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED	[D]	[E]	[F]
1		Working Capital	\$ 73,335	\$ (17,991)	\$ 55,344			
2								
3								
4								
5			Test Year					
6			Adjusted	Revenue	Expense	Net	Lead / Lag	Working Cash
7			Results			Lag Days	Factor	Requirement
8		Staff's Calculation				[B - C]	[D + 365]	[A X E]
9		Purchased Power	\$ 107,256	30.10	30.87	(0.77)	(0.0021)	\$ (226)
10		Payroll	195,535	30.10	14.00	16.10	0.0441	8,626
11		Purchased Water	-	30.10	(55.31)	85.41	0.2340	-
12		Chemicals	3,859	30.10	(18.11)	48.21	0.1321	510
13		Property & Liability Insurance	11,303	30.10	(45.27)	75.37	0.2065	2,334
14		Workman's Compensation Insurance	2,585	30.10	(46.50)	76.60	0.2099	543
15		Health Insurance	34,962	30.10	(8.92)	39.02	0.1069	3,738
16		Other O&M (Excluding Rate Case Expense)	117,573	30.10	(9.27)	39.37	0.1079	12,682
17		Federal Income Taxes	61,373	30.10	37.00	(6.90)	(0.0189)	(1,160)
18		State Income Taxes	13,520	30.10	37.00	(6.90)	(0.0189)	(256)
19		FICA Taxes	14,659	30.10	14.00	16.10	0.0441	647
20		FUTA & SUTA Taxes	479	30.10	83.10	(53.00)	(0.1452)	(70)
21		Property Taxes	42,161	30.10	212.00	(181.90)	(0.4984)	(21,011)
22		Registration, Svc. Contracts, & Misc. Fees	11,107	30.10	(98.83)	128.93	0.3532	3,924
23		Retirement Annuities (401k)	17,922	30.10	34.72	(4.62)	(0.0127)	(227)
24								
25								
26			\$ 634,295					\$ 10,053
27		Subtotal						
28								
29		Interest Expense	82,653	30.10	91.25	(61.15)	(0.1675)	(13,847)
30		Cost of Equity	-					
31								
32		Subtotal	\$ 82,653					\$ (13,847)
33								
34								
35		Total	716,948					\$ (3,794)
36								
37		Company Cash Working Capital						\$ 14,197
38								
39		Increase/(Decrease)						\$ (17,991)

REFERENCES:

Column [A]: Company Filing  
Column [B]: Direct Testimony JMM  
Column [C]: Column [A] + Column [B]

OPERATING INCOME STATEMENT - ADJUSTED TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY ADJUSTED TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF PROPOSED CHANGES	[E] STAFF RECOMMENDED
1	<u>OPERATING REVENUES:</u>					
2	Residential	\$ 801,054	\$ -	\$ 801,054	\$ 23,664	\$ 824,718
3	Commercial	156,437	-	156,437	-	156,437
4	Industrial	-	-	-	-	-
5	Private Fire Service	283	-	283	-	283
6	Other Water Revenues	19,841	-	19,841	-	19,841
7	Total Water Revenues	\$ 977,615	\$ -	\$ 977,615	\$ 23,664	\$ 1,001,279
8						
9	Miscellaneous	12,494.00	-	12,494.00	-	12,494
10	Total Operating Revenues	\$ 990,109	\$ -	\$ 990,109	\$ 23,664	\$ 1,013,773
11						
12	<u>OPERATING EXPENSES:</u>					
13	Source of Supply Expenses					
14	Purchased Water	\$ -	\$ -	\$ -	\$ -	\$ -
15	Other	5,203	(62)	5,141	-	5,141
16	Pumping Expenses					
17	Purchased Power	107,154	102	107,256	-	107,256
18	Purchased Gas	-	-	-	-	-
19	Other	39,396	(5,066)	34,330	-	34,330
20	Water Treatment Expenses	17,008	(105)	16,903	-	16,903
21	Transmission and Distribution Expenses	127,733	(29,482)	98,251	-	98,251
22	Customer Accounting Expenses	103,050	(754)	102,296	-	102,296
23	Sales Expense	-	-	-	-	-
24	Administrative and General Expenses	147,197	(5,541)	141,656	-	141,656
25	Total Operation and Maintenance Expense	546,739	(40,907)	505,832	-	505,832
26						
27	Depreciation and Amortization Expenses	176,809	347	177,156	-	177,156
28						
29	Taxes					
30	Federal Income Taxes	41,571	12,423	53,994	7,380	61,373
31	State Income Taxes	9,158	2,736	11,894	1,626	13,520
32	Property Taxes	39,795	2,033	41,828	333	42,161
33	Other	12,688	-	12,688	-	12,688
34	Total Taxes	103,212	17,192	120,404	9,339	129,743
35		-	-	-	-	-
36		-	-	-	-	-
37	Total Operating Expenses	826,760	-	803,391	9,339	812,730
38						
39	Operating Income (Loss)	\$ 163,349	\$ 23,369	\$ 186,718	\$ 14,326	\$ 201,043

References:

Column (A): Company Schedule C-1  
Column (B): Schedule JMM-9  
Column (C): Column (A) + Column (B)  
Column (D): Schedules JMM-17 and JMM-18  
Column (E): Column (C) + Column (D)

SUMMARY OF OPERATING INCOME STATEMENT ADJUSTMENTS - TEST YEAR

LINE NO.	ACCT. NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] Reverse Unbilled Expenses ADJ #1 Ref. Sch JMM-10	[C] Fleet Fuel Expense ADJ #2 Ref. Sch JMM-11	[D] Removal of Pumping Transmission and Distribution Projection ADJ #3 Ref. Sch JMM-12	[E] RUCO Miscellaneous Expense Adjustment ADJ #4 Ref. Sch JMM-13	[F] Not Used ADJ #5 Ref. Sch JMM-14	[G] Rate Case Expense ADJ #6 Ref. Sch JMM-15	[H] Not Used ADJ #7 Ref. Sch JMM-16	[I] Income Tax Expense ADJ #8 Ref. Sch JMM-17	[J] Property Expense ADJ #9 Ref. Sch JMM-18	[K] STAFF ADJUSTED
1		OPERATING REVENUES:											
2		Residential	\$ 801,054	-	-	-	-	-	-	-	-	-	801,054
3		Commercial	156,437	-	-	-	-	-	-	-	-	-	156,437
4		Industrial	-	-	-	-	-	-	-	-	-	-	-
5		Private Fire Service	283	-	-	-	-	-	-	-	-	-	283
6		Other Water Revenues	19,841	-	-	-	-	-	-	-	-	-	19,841
7		Total Water Revenues	\$ 977,615	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 977,615
8		Miscellaneous	12,494	-	-	-	-	-	-	-	-	-	12,494
9		Total Operating Revenues	\$ 990,109	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 990,109
10		OPERATING EXPENSES:											
11		Source of Supply Expenses											
12		Purchased Water	5,203	(50)	(12)	-	-	-	-	-	-	-	5,141
13		Pumping Expenses	107,154	-	-	-	-	-	-	-	-	-	107,154
14		Purchased Power	39,396	(89)	(119)	-	-	-	-	-	-	-	39,296
15		Purchased Gas	17,008	(69)	(37)	(4,859)	-	-	-	-	-	-	16,903
16		Other	127,733	(1,374)	(388)	-	-	-	-	-	-	-	126,071
17		Water Treatment Expenses	103,050	(650)	(104)	(27,721)	-	-	-	-	-	-	75,675
18		Transmission and Distribution Expenses	147,197	(514)	(39)	-	-	-	-	-	-	-	146,644
19		Customer Accounting Expenses	546,739	(2,641)	(697)	(32,580)	(547)	-	(4,442)	-	-	-	541,059
20		Sales Expense	176,809	-	-	-	(547)	-	(4,442)	-	-	-	171,819
21		Administrative and General Expenses											
22		Total Operating Expenses	\$ 1,447,739	\$ (2,641)	\$ (697)	\$ (32,580)	\$ (547)	\$ -	\$ (4,442)	\$ -	\$ -	\$ -	\$ 1,445,059
23		Depreciation and Amortization Expenses											
24		Federal Income Taxes	41,571	-	-	-	-	-	-	347	-	-	41,918
25		State Income Taxes	9,156	-	-	-	-	-	-	-	-	-	9,156
26		Property Taxes	39,795	-	-	-	-	-	-	-	12,423	-	52,218
27		Other	12,688	-	-	-	-	-	-	-	2,736	-	15,424
28		Total Taxes	\$ 103,212	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 15,159	\$ 2,033	\$ 121,304
29		Total Operating Expenses	\$ 1,550,951	\$ (2,641)	\$ (697)	\$ (32,580)	\$ (547)	\$ -	\$ (4,442)	\$ 347	\$ 17,159	\$ 2,033	\$ 1,567,130
30		Operating Income (Loss)	\$ 163,349	\$ 2,641	\$ 697	\$ 32,580	\$ 547	\$ -	\$ 4,442	\$ (347)	\$ (15,159)	\$ (2,033)	\$ 186,718

OPERATING INCOME ADJUSTMENT NO. 1 - REVERSE UNBILLED EXPENSES

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF <sup>1</sup> RECOMMENDED
1	Residential	\$ 801,054	\$ -	\$ 801,054
2	Commercial	156,437	-	156,437
3	Industrial	-	-	-
4	Revenue Adjustments	\$ 957,491	\$ -	\$ 957,491
5				
6	Source Supply - Other	\$ 5,153	\$ -	\$ 5,153
7	Unbilled Expenses	50	(50)	-
8	Total Source Supply - Other	\$ 5,203	\$ (50)	\$ 5,153
9				
10	Purchased Power	\$ 107,256	\$ -	\$ 107,256
11	Unbilled Expenses	(102)	102	0
12	Total Purchased Power	\$ 107,154	\$ 102	\$ 107,256
13				
14	Pumping Expense - Other	\$ 39,307	\$ -	\$ 39,307
15	Unbilled Expenses	88	(88)	-
16	Total Pumping Expense - Other	\$ 39,396	\$ (88)	\$ 39,307
17				
18	Water Treatment Expenses	\$ 16,940	\$ -	\$ 16,940
19	Unbilled Expenses	68	(68)	-
20	Total Water Treatment Expenses	\$ 17,008	\$ (68)	\$ 16,940
21				
22	Transmission and Distribution Expenses	\$ 126,360	\$ -	\$ 126,360
23	Unbilled Expenses	1,374	(1,374)	-
24	Total Transmission and Distribution Expenses	\$ 127,733	\$ (1,374)	\$ 126,360
25				
26	Customer Accounting Expenses	\$ 102,400	\$ -	\$ 102,400
27	Unbilled Expenses	650	(650)	-
28	Total Customer Accounting Expenses	\$ 103,050	\$ (650)	\$ 102,400
29				
30	Administrative and General Expenses	\$ 146,683	\$ -	\$ 146,683
31	Unbilled Expenses	514	(514)	-
32	Total Administrative and General Expenses	\$ 147,197	\$ (514)	\$ 146,683
33				
34	Total Expense Adjustments	\$ 546,739	\$ (2,641)	\$ 544,098

<sup>1</sup> Amounts do not reflect other adjustments.

References:

Column (A): Company Schedule C-1  
Column (B): Testimony JMM  
Column (C): Column (A) + Column (B)



OPERATING INCOME ADJUSTMENT NO. 3 - FLEET FUEL EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF <sup>1</sup> RECOMMENDED
1	Source Supply - Other	\$ 990,051	\$ -	\$ 990,051
2	Fleet Fuel Expenses	58	(12)	47
3	Total Source Supply - Other	\$ 990,109	\$ (12)	\$ 990,097
4				
5	Pumping Expense - Other	\$ 38,803	\$ -	\$ 38,803
6	Fleet Fuel Expenses	593	(119)	474
7	Total Pumping Expense - Other	\$ 39,396	\$ (119)	\$ 39,277
8				
9	Water Treatment Expenses	\$ 16,824	\$ -	\$ 16,824
10	Fleet Fuel Expenses	184	(37)	147
11	Total Water Treatment Expenses	\$ 17,008	\$ (37)	\$ 16,971
12				
13	Transmission and Distribution Expenses	\$ 95,015	\$ -	\$ 95,015
14	Fleet Fuel Expenses	32,718	(388)	32,330
15	Total Transmission and Distribution Expenses	\$ 127,733	\$ (388)	\$ 127,346
16				
17	Customer Accounting Expenses	\$ 94,231	\$ -	\$ 94,231
18	Fleet Fuel Expenses	8,819	(104)	8,715
19	Total Customer Accounting Expenses	\$ 103,050	\$ (104)	\$ 102,945
20				
21	Administrative and General Expenses	\$ 147,007	\$ -	\$ 147,007
22	Fleet Fuel Expenses	189	(38)	151
23	Total Administrative and General Expenses	\$ 147,197	\$ (38)	\$ 147,159
24				
25	Total Expense Adjustments	\$ 1,424,492	\$ (697)	\$ 1,423,795
26				
27				
28	Staff's Calculation based on the most recent 12 month gas price of \$ 3.38			
29				
30		Company Pro-forma	Staff's Recalculation	Reduction
31	Source Supply - Other	\$ 58	\$ 47	\$ 12
32	Pumping Expenses Other	593	474	119
33	Water Treatment Expenses	184	147	37
34	Transmission and Distribution Expenses	1,936	1,548	388
35	Customer Accounting Expenses	522	417	104
36	Administrative and General Expenses	189	151	38
37	Totals	\$ 3,482	\$ 2,785	\$ 697

<sup>1</sup> Amounts do not reflect other adjustments.

References:

Column (A), Company Schedule C-1  
Column (B): Testimony JMM  
Column (C): Column (A) + Column (B)

OPERATING INCOME ADJUSTMENT NO. 3 - REMOVAL OF PROJECTED EXPENSES

LINE NO.	DESCRIPTION	[A]		[B]		[C]	
		COMPANY PROPOSED		STAFF ADJUSTMENTS		STAFF <sup>1</sup> RECOMMENDED	
1	Pumping Expenses - Other	\$	34,537	\$	-	\$	34,537
2	Normalization of Pumping Expenses		4,859		(4,859)	\$	-
3	Total Pumping Expense - Other	\$	39,396	\$	(4,859)	\$	34,537
4							
5	Transmission and Distribution Expenses	\$	100,012	\$	-	\$	100,012
6	Normalization of Transmission and Distribution Expenses		27,721		(27,721)		-
7	Total Transmission and Distribution Expenses	\$	127,733	\$	(27,721)	\$	100,012

<sup>1</sup> Amounts do not reflect other adjustments.

References:

Column (A), Company Schedule C-1

Column (B): Testimony JMM

Column (C): Column (A) + Column (B)

OPERATING INCOME ADJUSTMENT NO. 4 - RUCO MISCELLANEOUS EXPENSE ADJUSTMENT

LINE NO.	DESCRIPTION	[A]		[B]		[C]	
		COMPANY PROPOSED		STAFF ADJUSTMENTS		STAFF <sup>1</sup> RECOMMENDED	
1	Administrative and General Expenses	\$	2,090,357	\$	(547)	\$	2,089,810

<sup>1</sup> Amounts do not reflect other adjustments.

References:

Column (A), Company Schedule C-1

Column (B): Testimony JMM

Column (C): Column (A) + Column (B)

Arizona Water Company - Oracle  
Docket No. W-01445A-11-0310  
Test Year ended December 31, 2010

Surrebuttal Schedule JMM-14

OPERATING INCOME ADJUSTMENT NO. 5 - NOT USED

OPERATING INCOME ADJUSTMENT NO. 6 - RATE CASE EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF <sup>1</sup> RECOMMENDED
1	Administrative and General Expenses	\$ 140,572	\$ -	\$ 140,572
2	Rate Case Expense Pro Forma	6,625	(4,442)	2,183
3	Total Administrative and General	\$ 147,197	\$ (4,442)	\$ 142,754

Staff's Calculation of Rate Case Expense for Pinal Valley

Line No.	System	Average Number of Customers	T.Y. 2010 Rate Case Expense Estimate / Spread	[B] Normalization Period in Years	[C] Annual Amortization / Pro Forma Rate Case Exp.	[D] T.Y. 2010 Prior Rate Case Expense Charged to O&M - 928.2	[E] Increase / (Decrease)
1	All Systems						
2	Pinal Valley	28,030	206,277.86	3			
3	White Tank	1,927	14,177.38	3			
4	Ajo	679	4,997.47	3			
5	Superstition	23,792	175,085.54	3			
6	Cochise	6,404	47,130.98	3			
7	San Manuel	1,476	10,860.25	3			
8	Oracle	1,521	11,189.57	3			
9	SaddleBrooke Ranch	89	651.28	3	\$ 3,730	1,547	\$ 2,183
10	Winkelman	157	1,152.32	3			
11	Navajo	9,090	66,897.02	3			
12	Verde Valley	10,569	77,779.34	3			
13		83,733	616,199				
14							
15							
16	Rate Case Expense Incurred Last Time		\$ 616,199				
17							
18	Company Proposed Rate Case Expense Pro Forma						\$ 6,625
19							
20	Staff Adjustment to Rate Case Expense						\$ (4,442)

<sup>1</sup> Amounts do not reflect other adjustments.

References:

Column (A), Company Schedule C-1  
Column (B): Testimony JMM  
Column (C): Column (A) + Column (B)

OPERATING INCOME ADJUSTMENT NO. 7 - NOT USED

LINE NO.	ACCT NO.	DESCRIPTION	[A] PLANT in SERVICE Per Staff	[B] NonDepreciable or Fully Depreciated PLANT	[C] DEPRECIABLE PLANT (Col A - Col B)	[D] DEPRECIATION RATE	[E] DEPRECIATION EXPENSE (Col C x Col D)
1	301	Organization Cost	\$ 13	\$ -	\$ 13	0.00%	\$ -
2	302	Franchise Cost	\$ -	\$ -	\$ -	4.00%	\$ -
3	303	Other Intangibles	\$ 591	\$ -	\$ 591	5.07%	\$ 30
4	310.1	Water Rights	\$ 129,139	\$ -	\$ 129,139	0.00%	\$ -
5	310.3	Other Source of Supply Land	\$ 24,695	\$ -	\$ 24,695	0.00%	\$ -
6	310.4	Wells - Other	\$ -	\$ -	\$ -	2.50%	\$ -
7	314	Wells	\$ 480,265	\$ -	\$ 480,265	3.13%	\$ 15,032
8	320	Pumping Plant Land	\$ 2,742	\$ -	\$ 2,742	0.00%	\$ -
9	321	Pumping Plant Structures & Improvements	\$ 91,283	\$ -	\$ 91,283	2.86%	\$ 2,611
10	325	Electric Pumping Equipment	\$ 888,754	\$ -	\$ 888,754	5.88%	\$ 52,259
11	328	Gas Engine Equipment	\$ -	\$ -	\$ -	4.00%	\$ -
12	330	Water Treatment Plant - Land	\$ -	\$ -	\$ -	0.00%	\$ -
13	331	Water Treatment Structures and Improvements	\$ 35,054	\$ -	\$ 35,054	2.50%	\$ 876
14	332	Water Treatment Equipment	\$ 71,579	\$ -	\$ 71,579	2.86%	\$ 2,047
15	340	Transmission and Distribution - Land	\$ 19,680	\$ -	\$ 19,680	0.00%	\$ -
16	342	Storage Tanks	\$ 306,126	\$ -	\$ 306,126	2.00%	\$ 6,123
17	343	Transmission and Distribution Mains	\$ 3,992,029	\$ -	\$ 3,992,029	1.79%	\$ 71,457
18	344	Fire Sprinkler Taps	\$ -	\$ -	\$ -	2.00%	\$ -
19	345	Services	\$ 684,363	\$ -	\$ 684,363	2.38%	\$ 16,288
20	346	Meters	\$ 112,379	\$ -	\$ 112,379	4.55%	\$ 5,113
21	348	Hydrants	\$ 158,971	\$ -	\$ 158,971	1.82%	\$ 2,893
22	389	General Plant Land	\$ -	\$ -	\$ -	0.00%	\$ -
23	390	General Plant Structures	\$ 147,431	\$ -	\$ 147,431	2.50%	\$ 3,686
24	390.1	Leasehold Improvements	\$ 31,479	\$ -	\$ 31,479	1.74%	\$ 547
25	391	Office Furniture & Equipment	\$ 103,350	\$ -	\$ 103,350	6.67%	\$ 6,893
26	393	Warehouse Equipment	\$ 1,991	\$ -	\$ 1,991	5.00%	\$ 100
27	394	Tools, Shops, and Garage Equipment	\$ 29,164	\$ -	\$ 29,164	4.00%	\$ 1,167
28	395	Laboratory Equipment	\$ 238	\$ -	\$ 238	5.00%	\$ 12
29	396	Power Operated Equipment	\$ 1,161	\$ -	\$ 1,161	6.67%	\$ 77
30	397	Communications Equipment	\$ 148,511	\$ -	\$ 148,511	6.67%	\$ 9,906
31	398	Miscellaneous Equipment	\$ 4,845	\$ -	\$ 4,845	3.33%	\$ 161
32		Intentionally Left Blank					
33		Total Plant	\$ 7,465,833	\$ -	\$ 7,465,820		\$ 197,278
34							
35		Composite Depreciation Rate (Depr Exp / Depreciable Plant):	2.00%				
36		CIAC: \$	1,006,130				
37		Amortization of CIAC (Line 35 x Line 36):	\$ 20,123				
38							
39		Depreciation Expense Before Amortization of CIAC: \$	197,278				
40		Less Amortization of CIAC: \$	20,123				
41		Test Year Depreciation Expense - Staff: \$	177,156				
42		Depreciation Expense - Company: \$	176,809				
43		Staff's Total Adjustment: \$	347				

References:

Column [A]: Schedule JMM-4  
Column [B]: From Column [A]  
Column [C]: Column [A] - Column [B]  
Column [D]: Engineering Staff Report  
Column [E]: Column [C] x Column [D]

Arizona Water Company - Oracle  
Docket No. W-01445A-11-0310  
Test Year ended December 31, 2010

**Surrebuttal Schedule JMM-17**

**OPERATING INCOME ADJUSTMENT NO. 8 - TEST YEAR INCOME TAXES**

LINE NO.	DESCRIPTION	COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1	Federal Income Taxes	\$ 41,571	\$ 12,423	\$ 53,994
2	State Income Taxes	9,158	2,736	11,894
3	Federal and State Income Taxes	<u>\$ 50,729</u>	<u>\$ 15,159</u>	<u>\$ 65,888</u>

References:

Column (A), Company Schedule C-1  
Column (B): Column [C] - Column [A]  
Column (C): Schedule JMM-2

OPERATING INCOME ADJUSTMENT NO. 9 - PROPERTY TAX EXPENSE

LINE NO.	Property Tax Calculation	[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues	\$ 990,109	\$ 990,109
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	1,980,218	\$ 1,980,218
4	Staff Recommended Revenue, Per Schedule JMM-1	990,109	\$ 1,013,773
5	Subtotal (Line 4 + Line 5)	2,970,327	2,993,991
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	990,109	\$ 997,997
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	1,980,218	\$ 1,995,994
10	Plus: 10% of CWIP -	-	-
11	Less: Net Book Value of Licensed Vehicles	-	\$ -
12	Full Cash Value (Line 9 + Line 10 - Line 11)	1,980,218	\$ 1,995,994
13	Assessment Ratio	20.5%	20.5%
14	Assessment Value (Line 12 * Line 13)	405,945	\$ 409,179
15	Composite Property Tax Rate (Per Company Schedule)	10.3038%	10.3038%
16			
17	Staff Test Year Adjusted Property Tax (Line 14 * Line 15)	\$ 41,828	
18	Company Proposed Property Tax	39,795	
19			
20	Staff Test Year Adjustment (Line 17-Line 18)	\$ 2,033	
21	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		\$ 42,161
22	Staff Test Year Adjusted Property Tax Expense (Line 17)		\$ 41,828
23	Increase in Property Tax Expense Due to Increase in Revenue Requirement		\$ 333
24			
25	Increase to Property Tax Expense		\$ 333
26	Increase in Revenue Requirement		23,664
27	Increase to Property Tax per Dollar Increase in Revenue (Line 25/Line 26)		1.408191%



**Arizona Water Company Cost of Capital Calculation**  
**Capital Structure**  
**And Weighted Average Cost of Capital**  
**Staff Recommended and Company Proposed**

[A]	[B]	[C]	[D]
<u>Description</u>	<u>Weight (%)</u>	<u>Cost</u>	<u>Weighted Cost</u>
Staff Recommended Structure			
Debt	49.0%	6.8%	3.3%
Common Equity	51.0%	9.4%	<u>4.8%</u>
Weighted Average Cost of Capital			<b>8.1%</b>
Company Proposed Structure <sup>1</sup>			
Debt	49.0%	6.8%	3.3%
Common Equity	51.0%	12.5%	<u>6.4%</u>
Weighted Average Cost of Capital			<b>9.7%</b>

<sup>1</sup> Company Schedule D-1, page 2

[D]: [B] x [C]

Arizona Water Company - SaddleBrooke Ranch  
Docket No. W-01445A-11-0310  
Test Year ended December 31, 2010

SURREBUTTAL TESTIMONY OF Jeffrey M. Michlik

**TABLE OF CONTENTS TO SCHEDULES**

<u>SCH #</u>	<u>TITLE</u>
JMM-1	REVENUE REQUIREMENT
JMM-2	GROSS REVENUE CONVERSION FACTOR
JMM-3	RATE BASE - ORIGINAL COSTS
JMM-4	SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS
JMM-5	ORIGINAL COST RATE BASE ADJUSTMENT # 1 - RUCO RATE BASE ADJUSTMENT
JMM-6	ORIGINAL COST RATE BASE ADJUSTMENT # 2 - CAPITALIZE WATER TESTING EXPENSE
JMM-7	ORIGINAL COST RATE BASE ADJUSTMENT # 3 - CASH WORKING CAPITAL
JMM-8	OPERATING INCOME STATEMENT - ADJUSTED TEST YEAR AND STAFF RECOMMENDED
JMM-9	SUMMARY OF OPERATING INCOME STATEMENT ADJUSTMENTS - TEST YEAR
JMM-10	OPERATING INCOME ADJUSTMENT # 1 - REVERSE UNBILLED EXPENSES
JMM-11	OPERATING INCOME ADJUSTMENT # 2 - FLEET FUEL EXPENSE
JMM-12	OPERATING INCOME ADJUSTMENT # 3 - REMOVAL OF PROJECTED EXPENSES
JMM-13	OPERATING INCOME ADJUSTMENT # 4 - RUCO MISCELLANEOUS EXPENSE ADJUSTMENT
JMM-14	OPERATING INCOME ADJUSTMENT # 5 - NOT USED
JMM-15	OPERATING INCOME ADJUSTMENT # 6 - RATE CASE EXPENSE
JMM-16	OPERATING INCOME ADJUSTMENT # 7 - DEPRECIATION EXPENSE
JMM-17	OPERATING INCOME ADJUSTMENT # 8 - INCOME TAX EXPENSE
JMM-18	OPERATING INCOME ADJUSTMENT # 9 - PROPERTY TAX EXPENSE

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY FAIR VALUE	(B) STAFF FAIR VALUE
1	Adjusted Rate Base	\$ (124,601)	\$ (114,868)
2	Adjusted Operating Income (Loss)	\$ (78,989)	\$ (76,631)
3	Current Rate of Return (L2 / L1)	NMF	NMF
4	Required Rate of Return	NMF	NMF
5	Required Operating Income (L4 * L1)	\$ (12,108)	\$ -
6	Operating Income Deficiency (L5 - L2)	\$ 66,880	\$ 76,631
7	Gross Revenue Conversion Factor	1.6535	1.6519
8	Required Revenue Increase (L7 * L6)	\$ 110,584	<b>\$ 126,586</b>
9	Adjusted Test Year Revenue	\$ 117,103	\$ 117,103
10	Proposed Annual Revenue (L8 + L9)	\$ 227,687	\$ 243,689
11	Required Increase in Revenue (%)	94.43%	108.10%

NMF - Not Meaningful due to negative rate base.

References:

Column (A): Company Schedule A-1

Column (B): Staff Schedules JMM-3 and JMM-7

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
<u>Calculation of Gross Revenue Conversion Factor:</u>					
1	Revenue	100.0000%			
2	Uncollectible Factor (Line 11)	0.0000%			
3	Revenues (L1 - L2)	100.0000%			
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	39.4635%			
5	Subtotal (L3 - L4)	60.5365%			
6	Revenue Conversion Factor (L1 / L5)	1.651897			
<u>Calculation of Uncollectible Factor:</u>					
7	Unity	100.0000%			
8	Combined Federal and State Tax Rate (Line 23)	38.5989%			
9	One Minus Combined Income Tax Rate (L7 - L8)	61.4011%			
10	Uncollectible Rate	0.0000%			
11	Uncollectible Factor (L9 * L10)	0.0000%			
<u>Calculation of Effective Tax Rate:</u>					
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
13	Arizona State Income Tax Rate	6.9680%			
14	Federal Taxable Income (L12 - L13)	93.0320%			
15	Applicable Federal Income Tax Rate (Line 55)	34.0000%			
16	Effective Federal Income Tax Rate (L14 x L15)	31.6309%			
17	Combined Federal and State Income Tax Rate (L13 + L16)		38.5989%		
<u>Calculation of Effective Property Tax Factor</u>					
18	Unity	100.0000%			
19	Combined Federal and State Income Tax Rate (L17)	38.5989%			
20	One Minus Combined Income Tax Rate (L18-L19)	61.4011%			
21	Property Tax Factor (JMM-17, L27)	1.4082%			
22	Effective Property Tax Factor (L20*L21)		0.8646%		
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			39.4635%	
24	Required Operating Income (Schedule JMM-1, Line 5)	\$ -			
25	Adjusted Test Year Operating Income (Loss)	(76,631)			
26	Required Increase in Operating Income (L24 - L25)		\$ 76,631		
27	Income Taxes on Recommended Revenue (Col. [E], L52)	\$ -			
28	Income Taxes on Test Year Revenue (Col. [B], L52)	(48,173)			
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		48,173		
30	Recommended Revenue Requirement (Schedule JMM-1, Line 10)	\$ 243,689			
31	Uncollectible Rate (Line 10)	0.0000%			
32	Uncollectible Expense on Recommended Revenue (L30*L31)	\$ -			
33	Adjusted Test Year Uncollectible Expense	\$ -			
34	Required Increase in Revenue to Provide for Uncollectible Exp. (L32-L33)				
35	Property Tax with Recommended Revenue (JMM-17, Col B, L31)	\$ 6,730			
36	Property Tax on Test Year Revenue (JMM-17, Col A, L17)	4,947			
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		1,783		
38	Total Required Increase in Revenue (L26 + L29 + L34 + L37)		\$ 126,586		
<u>Calculation of Income Tax:</u>					
39	Revenue (Schedule JMM-7, Col. [C], Line 5 & Sch. JMM-1, Col. [D] Line 10)	\$ 117,103	\$ 126,586	\$ 243,689	
40	Operating Expenses Excluding Income Taxes	\$ 241,907		\$ 243,689	
41	Synchronized Interest (L56)	\$ -		\$ -	
42	Arizona Taxable Income (L39 - L40 - L41)	\$ (124,804)		\$ -	
43	Arizona State Income Tax Rate	6.9680%		6.9680%	
44	Arizona Income Tax (L42 x L43)	\$ (8,696)		\$ -	
45	Federal Taxable Income (L42 - L44)	\$ (116,108)		\$ -	
46	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 34%	\$ (17,000)		\$ -	
47	Federal Tax on Second Income Bracket (\$51,001 - \$75,000) @ 34%	\$ (8,500)		\$ -	
48	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$ (8,500)		\$ -	
49	Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 34%	\$ (5,477)		\$ -	
50	Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	\$ -		\$ -	
51	Total Federal Income Tax	\$ (39,477)		\$ -	
52	Combined Federal and State Income Tax (L44 + L51)	\$ (48,173)		\$ -	
53	Applicable Federal Income Tax Rate [Col. [E], L51 - Col. [B], L51] / [Col. [E], L45 - Col. [B], L45]			34.0000%	
<u>Calculation of Interest Synchronization:</u>					
54	Rate Base (Schedule JMM-3, Col. (C), Line 17)	\$ (114,868)			
55	Weighted Average Cost of Debt	0.0%			
56	Synchronized Interest (L45 X L46)	\$ -			

RATE BASE - ORIGINAL COST

LINE NO.		(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	Adj. No.	(C) STAFF AS ADJUSTED
1	Plant in Service	\$ 3,686,215	\$ 9,532	2	\$ 3,695,747
2	Less: Accumulated Depreciation	242,563	149	2	242,712
3	Net Plant in Service	<u>\$ 3,443,653</u>	<u>\$ 9,383</u>		<u>\$ 3,453,036</u>
4					
5	<u>LESS:</u>				
6					
7	Contributions in Aid of Construction (CIAC)	\$ 226,219	\$ -		\$ 226,219
8	Less: Accumulated Amortization	5,049	-		\$ 5,049
9	Net CIAC	<u>221,170</u>	<u>-</u>		<u>\$ 221,170</u>
10					
11	Advances in Aid of Construction (AIAC)	3,312,883	-		3,312,883
12					
13	Customer Deposits	706	-		706
14					
15	Deferred Income Tax Credits	38,052	-		38,052
16					
17					
18	<u>ADD:</u>				
19					
20					
21	Working Capital	4,557	350	3	4,907
22					
23	Deferred Regulatory Assets	-	-		-
24					
25					
26	<b>Original Cost Rate Base</b>	<u>\$ (124,601)</u>	<u>\$ 9,733</u>		<u>\$ (114,868)</u>

References:

Column [A]: Company as Filed  
Column [B]: Schedule JMM-4  
Column (C): Column (A) + Column (B)

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] RUCC Adjustment Ref: Sch JMM-5	[C] ADJ #2 Capitalize Water Testing Expense Ref: Sch JMM-6	[D] ADJ #3 Cash Working Capital Ref: Sch JMM-7	[E] STAFF ADJUSTED
1	301	Organization Cost	\$ 1	\$ -	\$ -	\$ -	1
2	302	Franchise Cost	-	-	-	-	-
3	303	Other Intangibles	13	-	-	-	13
4	310.1	Water Rights	0	-	-	-	0
5	310.3	Other Source of Supply Land	52	-	-	-	52
6	310.4	Wells - Other	-	-	-	-	-
7	310.4	Wells	457,306	-	9,510	-	466,816
8	320	Pumping Plant Land	-	-	-	-	-
9	321	Pumping Plant Structures & Improvements	53,685	-	-	-	53,685
10	325	Electric Pumping Equipment	416,672	-	-	-	416,672
11	328	Gas Engine Equipment	-	-	-	-	-
12	330	Water Treatment Plant - Land	-	-	-	-	-
13	331	Water Treatment Structures and Improvements	-	-	-	-	-
14	332	Water Treatment Equipment	3	-	-	-	3
15	340	Transmission and Distribution - Land	-	-	-	-	-
16	342	Storage Tanks	-	-	-	-	-
17	343	Transmission and Distribution Mains	2,312,756	-	-	-	2,312,756
18	344	Fire Sprinkler Taps	15,243	-	-	-	15,243
19	345	Services	208,294	-	-	-	208,294
20	346	Meters	53,814	-	-	-	53,814
21	348	Hydrants	136,178	-	-	-	136,178
22	389	General Plant Land	-	-	-	-	-
23	390	General Plant Structures	161	-	-	-	161
24	390.1	Leasehold Improvements	2,315	-	-	-	2,315
25	391	Office Furniture & Equipment	7,359	-	-	-	7,359
26	393	Warehouse Equipment	19	-	-	-	19
27	394	Tools, Shops, and Garage Equipment	437	(38)	-	-	399
28	395	Laboratory Equipment	7	-	-	-	7
29	396	Power Operated Equipment	2	-	-	-	2
30	397	Communications Equipment	21,887	60	-	-	21,948
31	398	Miscellaneous Equipment	11	-	-	-	11
32		Intentionally Left Blank	-	-	-	-	-
33			3,686,215	-	-	-	3,695,747
34			-	-	-	-	-
35		Total Plant in Service	\$ 3,686,215	\$ 22	\$ 9,510	\$ -	\$ 3,695,747
36			-	-	-	-	-
37		Less: Accumulated Depreciation	242,563	-	149	-	242,712
38			-	-	-	-	-
39		Net Plant in Service	\$ 3,443,653	\$ 22	\$ 9,361	\$ -	\$ 3,453,036
40			-	-	-	-	-
41		LESS:	-	-	-	-	-
42		Contributions in Aid of Construction (CIAC)	\$ 226,219	-	-	-	\$ 226,219
43		Less: Accumulated Amortization	5,049	-	-	-	5,049
44		Net CIAC (L25 - L26)	221,170	-	-	-	221,170
45		Advances in Aid of Construction (AIAC)	3,312,883	-	-	-	3,312,883
46		Customer Deposits	706	-	-	-	706
47		Deferred Income Taxes	38,052	-	-	-	38,052
48			-	-	-	-	-
49			-	-	-	-	-
50		ADD:	-	-	-	-	-
51		Working Capital	4,557	-	-	350	4,907
52		Deferred Regulatory Assets	-	-	-	-	-
53			-	-	-	-	-
54		Original Cost Rate Base	\$ (124,601)	\$ 22	\$ 9,361	\$ 350	\$ (114,868)
55			-	-	-	-	-

RATE BASE ADJUSTMENT NO. 1 - RUCO RATE BASE ADJUSTMENT

LINE NO.	ACCT NO.	DESCRIPTION	[A]		[B]		[C]	
			COMPANY PROPOSED		STAFF ADJUSTMENTS		STAFF RECOMMENDED	
1		Phoenix Meter Shop						
2	394	Tools, Shops, and Garage Equipment	\$	437	\$	(38)	\$	399
3	397	Communications Equipment		21,887		60		21,948
4			\$	22,325	\$	22	\$	22,347
5								

REFERENCES:

Column [A]: Company Filing  
Column [B]: Testimony JMM  
Column [C]: Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 1 - CAPITALIZE WATER TESTING EXPENSE

LINE NO.	ACCT NO.	DESCRIPTION	[A]	[B]	[C]
			COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1	314	Wells	\$ 457,306	\$ 9,510	\$ 466,816
2					
3		Accumulated Depreciation	\$ 242,563	\$ 149	242,712
4					

REFERENCES:

Column [A]: Company Filing

Column [B]: Direct Testimony JMM

Column [C]: Column [A] + Column [B]



RATE BASE ADJUSTMENT NO. 3 - CASH WORKING CAPITAL

LINE NO.	ACCT NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED	[D]	[E]	[F]
1		Working Capital	\$ 4,557	\$ 350	\$ 4,907			
2								
3								
4								
5			Test Year					
6			Adjusted	Revenue	Expense	Net	Lead / Lag	Working Cash
7			Results			Lag Days	Factor	Requirement
8		Staff's Calculation				[B - C]	[D + 365]	[A X E]
9		Purchased Power	\$ 103,754	28.62	30.87	(2.25)	(0.0062)	\$ (641)
10		Payroll	10,235	28.62	14.00	14.62	0.0400	410
11		Purchased Water	-	28.62	26.04	2.58	0.0071	-
12		Chemicals	-	28.62	(18.11)	46.73	0.1280	-
13		Property & Liability Insurance	831	28.62	(45.27)	73.89	0.2024	168
14		Workman's Compensation Insurance	190	28.62	(46.50)	75.12	0.2058	39
15		Health Insurance	1,338	28.62	(8.92)	37.54	0.1028	138
16		Other O&M (Excluding Rate Case Expense)	28,596	28.62	(9.27)	37.89	0.1038	2,968
17		Federal Income Taxes	-	28.62	37.00	(8.38)	(0.0230)	-
18		State Income Taxes	-	28.62	37.00	(8.38)	(0.0230)	-
19		FICA Taxes	772	28.62	14.00	14.62	0.0400	31
20		FUTA & SUTA Taxes	25	28.62	83.10	(54.48)	(0.1493)	(4)
21		Property Taxes	7,045	28.62	212.00	(183.38)	(0.5024)	(3,540)
22		Registration, Svc. Contracts, & Misc. Fees	817	28.62	(98.83)	127.45	0.3492	285
23		Retirement Annuities (401k)	686	28.62	34.72	(6.10)	(0.0167)	(11)
24								
25								
26			\$ 154,290					\$ (157)
27		Subtotal						
28								
29		Interest Expense	(4,169)	28.62	91.25	(62.63)	(0.1716)	715
30		Cost of Equity	-		-	-	-	-
31								
32		Subtotal	\$ (4,169)					\$ 715
33								
34								
35		Total	150,121					\$ 559
36								
37		Company Cash Working Capital						\$ 209
38								
39		Increase/(Decrease)						\$ 350

REFERENCES:

Column [A]: Company Filing  
Column [B]: Direct Testimony JMM  
Column [C]: Column [A] + Column [B]

OPERATING INCOME STATEMENT - ADJUSTED TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY ADJUSTED TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF PROPOSED CHANGES	[E] STAFF RECOMMENDED
1	<u>OPERATING REVENUES:</u>					
2	Residential	\$ 45,127	\$ -	\$ 45,127	\$ 126,586	\$ 171,713
3	Commercial	61,277	-	61,277	-	61,277
4	Industrial	-	-	-	-	-
5	Private Fire Service	85	-	85	-	85
6	Other Water Revenues	9,032	-	9,032	-	9,032
7	Total Water Revenues	\$ 115,521	\$ -	\$ 115,521	\$ 126,586	\$ 242,107
8						
9	Miscellaneous	1,582.00	-	1,582.00	-	1,582
10	Total Operating Revenues	\$ 117,103	\$ -	\$ 117,103	\$ 126,586	\$ 243,689
11						
12	<u>OPERATING EXPENSES:</u>					
13	Source of Supply Expenses					
14	Purchased Water	\$ -	\$ -	\$ -	\$ -	\$ -
15	Other	246	(0)	246	-	246
16	Pumping Expenses					
17	Purchased Power	103,754	-	103,754	-	103,754
18	Purchased Gas	-	-	-	-	-
19	Other	17,703	311	18,014	-	18,014
20	Water Treatment Expenses	753	(3)	750	-	750
21	Transmission and Distribution Expenses	7,190	(1,199)	5,991	-	5,991
22	Customer Accounting Expenses	8,102	(15)	8,087	-	8,087
23	Sales Expense	-	-	-	-	-
24	Administrative and General Expenses	10,107	(284)	9,823	-	9,823
25	Total Operation and Maintenance Expense	147,855	(1,190)	146,665	-	146,665
26						
27	Depreciation and Amortization Expenses	89,428	300	89,728	-	89,728
28						
29	Taxes					
30	Federal Income Taxes	(38,543)	(934)	(39,477)	39,477	-
31	State Income Taxes	(8,491)	(205)	(8,696)	8,696	-
32	Property Taxes	5,275	(328)	4,947	1,783	6,730
33	Other	567	-	567	-	567
34	Total Taxes	(41,192)	(1,467)	(42,659)	49,955	7,297
35		-	-	-	-	-
36		-	-	-	-	-
37	Total Operating Expenses	196,091	-	193,734	49,955	243,689
38						
39	Operating Income (Loss)	\$ (78,989)	\$ 2,358	\$ (76,631)	\$ 76,631	\$ -

References:

Column (A): Company Schedule C-1  
Column (B): Schedule JMM-9  
Column (C): Column (A) + Column (B)  
Column (D): Schedules JMM-17 and JMM-18  
Column (E): Column (C) + Column (D)

[illegible]

OPERATING INCOME ADJUSTMENT NO. 1 - REVERSE UNBILLED EXPENSES

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF <sup>1</sup> RECOMMENDED
1	Residential	\$ 45,127	\$ -	\$ 45,127
2	Commercial	61,277	-	61,277
3	Industrial	-	-	-
4	Revenue Adjustments	\$ 106,404	\$ -	\$ 106,404
5				
6	Source Supply - Other	\$ 246	\$ -	\$ 246
7	Unbilled Expenses	(0)	0	-
8	Total Source Supply - Other	\$ 246	\$ 0	\$ 246
9				
10	Purchased Power	\$ 103,754	\$ -	\$ 103,754
11	Unbilled Expenses	-	-	-
12	Total Purchased Power	\$ 103,754	\$ -	\$ 103,754
13				
14	Pumping Expense - Other	\$ 17,721	\$ -	\$ 17,721
15	Unbilled Expenses	(18)	18	-
16	Total Pumping Expense - Other	\$ 17,703	\$ 18	\$ 17,721
17				
18	Water Treatment Expenses	\$ 753	\$ -	\$ 753
19	Unbilled Expenses	(0)	0	(0)
20	Total Water Treatment Expenses	\$ 753	\$ 0	\$ 753
21				
22	Transmission and Distribution Expenses	\$ 7,170	\$ -	\$ 7,170
23	Unbilled Expenses	20	(20)	-
24	Total Transmission and Distribution Expenses	\$ 7,190	\$ (20)	\$ 7,170
25				
26	Customer Accounting Expenses	\$ 8,094	\$ -	\$ 8,094
27	Unbilled Expenses	8	(8)	-
28	Total Customer Accounting Expenses	\$ 8,102	\$ (8)	\$ 8,094
29				
30	Administrative and General Expenses	\$ 10,072	\$ -	\$ 10,072
31	Unbilled Expenses	35	(35)	-
32	Total Administrative and General Expenses	\$ 10,107	\$ (35)	\$ 10,072
33				
34	Total Expense Adjustments	\$ 147,855	\$ (44)	\$ 147,811

<sup>1</sup> Amounts do not reflect other adjustments.

References:

Column (A), Company Schedule C-1

Column (B): Testimony JMM

Column (C): Column (A) + Column (B)

OPERATING INCOME ADJUSTMENT NO. 2 - FLEET FUEL EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF <sup>1</sup> RECOMMENDED
1	Source Supply - Other	\$ 117,099	\$ -	\$ 117,099
2	Fleet Fuel Expenses	4	(1)	3
3	Total Source Supply - Other	\$ 117,103	\$ (1)	\$ 117,102
4				
5	Pumping Expense - Other	\$ 17,659	\$ -	\$ 17,659
6	Fleet Fuel Expenses	44	(9)	35
7	Total Pumping Expense - Other	\$ 17,703	\$ (9)	\$ 17,694
8				
9	Water Treatment Expenses	\$ 739	\$ -	\$ 739
10	Fleet Fuel Expenses	14	(3)	11
11	Total Water Treatment Expenses	\$ 753	\$ (3)	\$ 750
12				
13	Transmission and Distribution Expenses	\$ (25,528)	\$ -	\$ (25,528)
14	Fleet Fuel Expenses	32,718	(29)	32,689
15	Total Transmission and Distribution Expenses	\$ 7,190	\$ (29)	\$ 7,161
16				
17	Customer Accounting Expenses	\$ (717)	\$ -	\$ (717)
18	Fleet Fuel Expenses	8,819	(8)	8,811
19	Total Customer Accounting Expenses	\$ 8,102	\$ (8)	\$ 8,094
20				
21	Administrative and General Expenses	\$ 10,093	\$ -	\$ 10,093
22	Fleet Fuel Expenses	14	(3)	11
23	Total Administrative and General Expenses	\$ 10,107	\$ (3)	\$ 10,104
24				
25	Total Expense Adjustments	\$ 160,958	\$ (51)	\$ 160,907
26				
27				
28	Staff's Calculation based on the most recent 12 month gas price of \$ 3.31			
29				
30		Company Pro-forma	Staff's Recalculation	Reduction
31	Source Supply - Other	\$ 4	\$ 3	\$ 1
32	Pumping Expenses Other	44	35	9
33	Water Treatment Expenses	14	11	3
34	Transmission and Distribution Expenses	142	114	29
35	Customer Accounting Expenses	38	31	8
36	Administrative and General Expenses	14	11	3
37	Totals	\$ 256	\$ 205	\$ 51

<sup>1</sup> Amounts do not reflect other adjustments.

References:

Column (A), Company Schedule C-1

Column (B): Testimony JMM

Column (C): Column (A) + Column (B)

OPERATING INCOME ADJUSTMENT NO. 3 - REMOVAL OF PROJECTED EXPENSES

LINE NO.	DESCRIPTION	[A]		[B]		[C]	
		COMPANY PROPOSED		STAFF ADJUSTMENTS		STAFF <sup>1</sup> RECOMMENDED	
1	Pumping Expenses - Other	\$	18,004	\$	-	\$	18,004
2	Normalization of Pumping Expenses		(301)		301	\$	-
3	Total Pumping Expense - Other	\$	17,703	\$	301	\$	18,004
4							
5	Transmission and Distribution Expenses	\$	6,040	\$	-	\$	6,040
6	Normalization of Transmission and Distribution Expenses		1,150		(1,150)		-
7	Total Transmission and Distribution Expenses	\$	7,190	\$	(1,150)	\$	6,040

<sup>1</sup> Amounts do not reflect other adjustments.

References:

Column (A), Company Schedule C-1  
Column (B): Testimony JMM  
Column (C): Column (A) + Column (B)

Arizona Water Company - SaddleBrooke Ranch  
Docket No. W-01445A-11-0310  
Test Year ended December 31, 2010

Surrebuttal Schedule JMM-13

OPERATING INCOME ADJUSTMENT NO. 4 - RUCO MISCELLANEOUS EXPENSE ADJUSTMENT

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF <sup>1</sup> RECOMMENDED
1	Administrative and General Expenses	\$ 10,107	\$ (42)	\$ 10,065

<sup>1</sup> Amounts do not reflect other adjustments.

References:

Column (A), Company Schedule C-1  
Column (B): Testimony JMM  
Column (C): Column (A) + Column (B)

Arizona Water Company - SaddleBrooke Ranch  
Docket No. W-01445A-11-0310  
Test Year ended December 31, 2010

Surrebuttal Schedule JMM-14

OPERATING INCOME ADJUSTMENT NO. 5 - NOT USED





OPERATING INCOME ADJUSTMENT NO. 7 - DEPRECIATION EXPENSE

LINE NO.	ACCT NO.	DESCRIPTION	[A] PLANT in SERVICE Per Staff	[B] NonDepreciable or Fully Depreciated PLANT	[C] DEPRECIABLE PLANT (Col A - Col B)	[D] DEPRECIATION RATE	[E] DEPRECIATION EXPENSE (Col C x Col D)
1	301	Organization Cost	\$ 1	\$ 1	\$ -	0.00%	\$ -
2	302	Franchise Cost	\$ -	\$ -	\$ -	4.00%	\$ -
3	303	Other Intangibles	\$ 13	\$ -	\$ 13	7.97%	\$ 1
4	310.1	Water Rights	\$ 0	\$ -	\$ 0	0.00%	\$ -
5	310.3	Other Source of Supply Land	\$ 52	\$ -	\$ 52	0.00%	\$ -
6	310.4	Wells - Other	\$ -	\$ -	\$ -	2.50%	\$ -
7	314	Wells	\$ 466,816	\$ -	\$ 466,816	3.13%	\$ 14,611
8	320	Pumping Plant Land	\$ -	\$ -	\$ -	0.00%	\$ -
9	321	Pumping Plant Structures & Improvements	\$ 53,685	\$ -	\$ 53,685	2.86%	\$ 1,535
10	325	Electric Pumping Equipment	\$ 416,672	\$ -	\$ 416,672	5.88%	\$ 24,500
11	328	Gas Engine Equipment	\$ -	\$ -	\$ -	4.00%	\$ -
12	330	Water Treatment Plant - Land	\$ -	\$ -	\$ -	0.00%	\$ -
13	331	Water Treatment Structures and Improvements	\$ -	\$ -	\$ -	2.50%	\$ -
14	332	Water Treatment Equipment	\$ 3	\$ -	\$ 3	2.86%	\$ 0
15	340	Transmission and Distribution - Land	\$ -	\$ -	\$ -	0.00%	\$ -
16	342	Storage Tanks	\$ -	\$ -	\$ -	2.00%	\$ -
17	343	Transmission and Distribution Mains	\$ 2,312,756	\$ -	\$ 2,312,756	1.79%	\$ 41,398
18	344	Fire Sprinkler Taps	\$ 15,243	\$ -	\$ 15,243	2.00%	\$ 305
19	345	Services	\$ 208,294	\$ -	\$ 208,294	2.38%	\$ 4,957
20	346	Meters	\$ 53,814	\$ -	\$ 53,814	4.55%	\$ 2,449
21	348	Hydrants	\$ 136,178	\$ -	\$ 136,178	1.82%	\$ 2,478
22	389	General Plant Land	\$ -	\$ -	\$ -	0.00%	\$ -
23	390	General Plant Structures	\$ 161	\$ -	\$ 161	2.50%	\$ 4
24	390.1	Leasehold Improvements	\$ 2,315	\$ -	\$ 2,315	1.73%	\$ 40
25	391	Office Furniture & Equipment	\$ 7,359	\$ -	\$ 7,359	6.67%	\$ 491
26	393	Warehouse Equipment	\$ 19	\$ -	\$ 19	5.00%	\$ 1
27	394	Tools, Shops, and Garage Equipment	\$ 399	\$ -	\$ 399	4.00%	\$ 16
28	395	Laboratory Equipment	\$ 7	\$ -	\$ 7	5.00%	\$ 0
29	396	Power Operated Equipment	\$ 2	\$ -	\$ 2	6.67%	\$ 0
30	397	Communications Equipment	\$ 21,948	\$ -	\$ 21,948	6.67%	\$ 1,464
31	398	Miscellaneous Equipment	\$ 11	\$ -	\$ 11	3.33%	\$ 0
32		Intentionally Left Blank					
33		Total Plant	\$ 3,695,747	\$ 1	\$ 3,695,746		\$ 94,252
34							
35		Composite Depreciation Rate (Depr Exp / Depreciable Plant):	2.00%				
36		CIAC: \$	226,219				
37		Amortization of CIAC (Line 35 x Line 36): \$	4,524				
38							
39		Depreciation Expense Before Amortization of CIAC: \$	94,252				
40		Less Amortization of CIAC: \$	4,524				
41		Test Year Depreciation Expense - Staff: \$	89,728				
42		Depreciation Expense - Company: \$	89,428				
43		Staff's Total Adjustment: \$	300				

References:

Column [A]: Schedule JMM-4  
Column [B]: From Column [A]  
Column [C]: Column [A] - Column [B]  
Column [D]: Engineering Staff Report  
Column [E]: Column [C] x Column [D]

Arizona Water Company - SaddleBrooke Ranch  
Docket No. W-01445A-11-0310  
Test Year ended December 31, 2010

Surrebuttal Schedule JMM-17

OPERATING INCOME ADJUSTMENT NO. 8 - TEST YEAR INCOME TAXES

LINE NO.	DESCRIPTION	COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1	Federal Income Taxes	\$ (38,543)	\$ (934)	\$ (39,477)
2	State Income Taxes	(8,491)	(205)	(8,696)
3	Federal and State Income Taxes	\$ (47,034)	\$ (1,139)	\$ (48,173)

References:

Column (A), Company Schedule C-1  
Column (B): Column [C] - Column [A]  
Column (C): Schedule JMM-2

OPERATING INCOME ADJUSTMENT NO. 9 - PROPERTY TAX EXPENSE

LINE NO.		[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
	Property Tax Calculation		
1	Staff Adjusted Test Year Revenues	\$ 117,103	\$ 117,103
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	234,206	\$ 234,206
4	Staff Recommended Revenue, Per Schedule JMM-1	117,103	\$ 243,689
5	Subtotal (Line 4 + Line 5)	351,309	477,895
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	117,103	\$ 159,298
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	234,206	\$ 318,597
10	Plus: 10% of CWIP -	-	-
11	Less: Net Book Value of Licensed Vehicles	-	\$ -
12	Full Cash Value (Line 9 + Line 10 - Line 11)	234,206	\$ 318,597
13	Assessment Ratio	20.5%	20.5%
14	Assessment Value (Line 12 * Line 13)	48,012	\$ 65,312
15	Composite Property Tax Rate (Per Company Schedule)	10.3038%	10.3038%
16			
17	Staff Test Year Adjusted Property Tax (Line 14 * Line 15)	\$ 4,947	
18	Company Proposed Property Tax	5,275	
19			
20	Staff Test Year Adjustment (Line 17-Line 18)	\$ (328)	
21	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		\$ 6,730
22	Staff Test Year Adjusted Property Tax Expense (Line 17)		\$ 4,947
23	Increase in Property Tax Expense Due to Increase in Revenue Requirement		\$ 1,783
24			
25	Increase to Property Tax Expense		\$ 1,783
26	Increase in Revenue Requirement		126,586
27	Increase to Property Tax per Dollar Increase in Revenue (Line 25/Line 26)		1.408191%

Arizona Water Company - SaddleBrooke Ranch  
Docket No. W-01445A-11-0310  
Test Year ended December 31, 2010

**Arizona Water Company Cost of Capital Calculation**  
**Capital Structure**  
**And Weighted Average Cost of Capital**  
**Staff Recommended and Company Proposed**

[A]	[B]	[C]	[D]
<u>Description</u>	<u>Weight (%)</u>	<u>Cost</u>	<u>Weighted Cost</u>
Staff Recommended Structure			
Debt	49.0%	6.8%	3.3000%
Common Equity	51.0%	9.4%	<u>4.8000%</u>
Weighted Average Cost of Capital			<b>8.1000%</b>
Company Proposed Structure <sup>1</sup>			
Debt	49.0%	6.8%	3.3000%
Common Equity	51.0%	12.5%	<u>6.4000%</u>
Weighted Average Cost of Capital			<b>9.7000%</b>

<sup>1</sup> Company Schedule D-1, page 2

[D] : [B] x [C]

Arizona Water Company - Winkelman  
Docket No. W-01445A-11-0310  
Test Year ended December 31, 2010

SURREBUTTAL TESTIMONY OF Jeffrey M. Michlik

TABLE OF CONTENTS TO SCHEDULES

<u>SCH #</u>	<u>TITLE</u>
JMM-1	REVENUE REQUIREMENT
JMM-2	GROSS REVENUE CONVERSION FACTOR
JMM-3	RATE BASE - ORIGINAL COSTS
JMM-4	SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS
JMM-5	ORIGINAL COST RATE BASE ADJUSTMENT # 1 - RUCO RATE BASE ADJUSTMENT
JMM-6	ORIGINAL COST RATE BASE ADJUSTMENT # 2 - NOT USED
JMM-7	ORIGINAL COST RATE BASE ADJUSTMENT # 3 - CASH WORKING CAPITAL
JMM-8	OPERATING INCOME STATEMENT - ADJUSTED TEST YEAR AND STAFF RECOMMENDED
JMM-9	SUMMARY OF OPERATING INCOME STATEMENT ADJUSTMENTS - TEST YEAR
JMM-10	OPERATING INCOME ADJUSTMENT # 1 - REVERSE UNBILLED EXPENSES
JMM-11	OPERATING INCOME ADJUSTMENT # 2 - FLEET FUEL EXPENSE
JMM-12	OPERATING INCOME ADJUSTMENT # 3 - REMOVAL OF PROJECTED EXPENSES
JMM-13	OPERATING INCOME ADJUSTMENT # 4 - RUCO MISCELLANEOUS EXPENSE ADJUSTMENT
JMM-14	OPERATING INCOME ADJUSTMENT # 5 - NOT USED
JMM-15	OPERATING INCOME ADJUSTMENT # 6 - RATE CASE EXPENSE
JMM-16	OPERATING INCOME ADJUSTMENT # 7 - DEPRECIATION EXPENSE
JMM-17	OPERATING INCOME ADJUSTMENT # 8 - INCOME TAX EXPENSE
JMM-18	OPERATING INCOME ADJUSTMENT # 9 - PROPERTY TAX EXPENSE

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY FAIR VALUE	(B) STAFF FAIR VALUE
1	Adjusted Rate Base	\$ 306,862	\$ 304,528
2	Adjusted Operating Income (Loss)	\$ 11,131	\$ 14,926
3	Current Rate of Return (L2 / L1)	3.63%	4.90%
4	Required Rate of Return	9.72%	8.1%
5	Required Operating Income (L4 * L1)	\$ 29,820	\$ 24,667
6	Operating Income Deficiency (L5 - L2)	\$ 18,689	\$ 9,741
7	Gross Revenue Conversion Factor	1.6729	1.6762
8	Required Revenue Increase (L7 * L6)	\$ 31,264	<b>\$ 16,328</b>
9	Adjusted Test Year Revenue	\$ 102,098	\$ 102,098
10	Proposed Annual Revenue (L8 + L9)	\$ 133,362	\$ 118,426
11	Required Increase in Revenue (%)	30.62%	15.99%

References:

Column (A): Company Schedule A-1

Column (B): Staff Schedules JMM-3 and JMM-7

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
<u>Calculation of Gross Revenue Conversion Factor:</u>					
1	Revenue	100.0000%			
2	Uncollectible Factor (Line 11)	0.0000%			
3	Revenues (L1 - L2)	100.0000%			
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	40.3425%			
5	Subtotal (L3 - L4)	59.6575%			
6	Revenue Conversion Factor (L1 / L5)	1.676235			
<u>Calculation of Uncollectible Factor:</u>					
7	Unity	100.0000%			
8	Combined Federal and State Tax Rate (Line 23)	38.5989%			
9	One Minus Combined Income Tax Rate (L7 - L8)	61.4011%			
10	Uncollectible Rate	0.0000%			
11	Uncollectible Factor (L9 * L10)	0.0000%			
<u>Calculation of Effective Tax Rate:</u>					
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
13	Arizona State Income Tax Rate	6.9680%			
14	Federal Taxable Income (L12 - L13)	93.0320%			
15	Applicable Federal Income Tax Rate (Line 55)	34.0000%			
16	Effective Federal Income Tax Rate (L14 x L15)	31.6309%			
17	Combined Federal and State Income Tax Rate (L13 + L16)		38.5989%		
<u>Calculation of Effective Property Tax Factor</u>					
18	Unity	100.0000%			
19	Combined Federal and State Income Tax Rate (L17)	38.5989%			
20	One Minus Combined Income Tax Rate (L18-L19)	61.4011%			
21	Property Tax Factor (JMM-17, L27)	2.8397%			
22	Effective Property Tax Factor (L20*L21)		1.7436%		
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			40.3425%	
24	Required Operating Income (Schedule JMM-1, Line 5)	\$ 24,667			
25	Adjusted Test Year Operating Income (Loss)	14,926			
26	Required Increase in Operating Income (L24 - L25)		\$ 9,741		
27	Income Taxes on Recommended Revenue (Col. [E], L52)	\$ 9,189			
28	Income Taxes on Test Year Revenue (Col. [B], L52)	3,066			
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		6,123		
30	Recommended Revenue Requirement (Schedule JMM-1, Line 10)	\$ 118,426			
31	Uncollectible Rate (Line 10)	0.0000%			
32	Uncollectible Expense on Recommended Revenue (L30*L31)	\$ -			
33	Adjusted Test Year Uncollectible Expense	\$ -			
34	Required Increase in Revenue to Provide for Uncollectible Exp. (L32-L33)		-		
35	Property Tax with Recommended Revenue (JMM-17, Col B, L31)	\$ 9,162			
36	Property Tax on Test Year Revenue (JMM-17, Col A, L17)	8,698			
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		464		
38	Total Required Increase in Revenue (L26 + L29 + L34 + L37)		\$ 16,328		
<u>Calculation of Income Tax:</u>					
39	Revenue (Schedule JMM-7, Col. [C], Line 5 & Sch. JMM-1, Col. [D] Line 10)	\$ 102,098	\$ 16,328	\$ 118,426	
40	Operating Expenses Excluding Income Taxes	\$ 84,106		\$ 84,570	
41	Synchronized Interest (L56)	\$ 10,049		\$ 10,049	
42	Arizona Taxable Income (L39 - L40 - L41)	\$ 7,942		\$ 23,806	
43	Arizona State Income Tax Rate	6.9680%		6.9680%	
44	Arizona Income Tax (L42 x L43)	\$ 553		\$ 1,659	
45	Federal Taxable Income (L42 - L44)	\$ 7,389		\$ 22,148	
46	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 34%	\$ 2,512		\$ 7,530	
47	Federal Tax on Second Income Bracket (\$51,001 - \$75,000) @ 34%	\$ -		\$ -	
48	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$ -		\$ -	
49	Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 34%	\$ -		\$ -	
50	Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	\$ -		\$ -	
51	Total Federal Income Tax	\$ 2,512		\$ 7,530	
52	Combined Federal and State Income Tax (L44 + L51)	\$ 3,066		\$ 9,189	
53	Applicable Federal Income Tax Rate [Col. [E], L51 - Col. [B], L51] / [Col. [E], L45 - Col. [B], L45]			34.0000%	
<u>Calculation of Interest Synchronization:</u>					
54	Rate Base (Schedule JMM-3, Col. (C), Line 17)	\$ 304,528			
55	Weighted Average Cost of Debt	3.3%			
56	Synchronized Interest (L45 X L46)	\$ 10,049			



RATE BASE - ORIGINAL COST

LINE NO.		(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	Adj. No.	(C) STAFF AS ADJUSTED
1	Plant in Service	\$ 591,416	\$ 12		\$ 591,428
2	Less: Accumulated Depreciation	220,207	-		220,207
3	Net Plant in Service	<u>\$ 371,209</u>	<u>\$ 12</u>		<u>\$ 371,221</u>
4					
5	<u>LESS:</u>				
6					
7	Contributions in Aid of Construction (CIAC)	\$ 21,225	\$ -		\$ 21,225
8	Less: Accumulated Amortization	984	-		984
9	Net CIAC	<u>20,241</u>	<u>-</u>		<u>\$ 20,241</u>
10					
11	Advances in Aid of Construction (AIAC)	-	-		-
12					
13	Customer Deposits	1,249	-		1,249
14					
15	Deferred Income Tax Credits	48,199	-		48,199
16					
17					
18	<u>ADD:</u>				
19					
20					
21	Working Capital	5,343	(2,347)	3	2,996
22					
23	Deferred Regulatory Assets	-	-		-
24					
25					
26	Original Cost Rate Base	<u>\$ 306,862</u>	<u>\$ (2,334)</u>		<u>\$ 304,528</u>

References:

Column [A]: Company as Filed  
Column [B]: Schedule JMM-4  
Column (C): Column (A) + Column (B)

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJ #1 RUCO Adjustment Ref: Sch JMM-5	[C] ADJ #2 Not Used Ref: Sch JMM-6	[D] ADJ #3 Cash Working Capital Ref: Sch JMM-7	[E] STAFF ADJUSTED
<u>PLANT IN SERVICE:</u>							
1	301	Organization Cost	\$ 1	-	-	-	1
2	302	Franchise Cost	2,072	-	-	-	2,072
3	303	Other Intangibles	61	-	-	-	61
4	310.1	Water Rights	2,911	-	-	-	2,911
5	310.3	Other Source of Supply Land	422	-	-	-	422
6	310.4	Wells - Other	-	-	-	-	-
7	314	Wells	48,327	-	-	-	48,327
8	320	Pumping Plant Land	-	-	-	-	-
9	321	Pumping Plant Structures & Improvements	6,073	-	-	-	6,073
10	325	Electric Pumping Equipment	157,859	-	-	-	157,859
11	328	Gas Engine Equipment	-	-	-	-	-
12	330	Water Treatment Plant - Land	-	-	-	-	-
13	331	Water Treatment Structures and Improvements	3,906	-	-	-	3,906
14	332	Water Treatment Equipment	23,287	-	-	-	23,287
15	340	Transmission and Distribution - Land	-	-	-	-	-
16	342	Storage Tanks	28,903	-	-	-	28,903
17	344	Transmission and Distribution Mains	120,932	-	-	-	120,932
18	348	Fire Sprinkler Taps	-	-	-	-	-
19	345	Services	109,946	-	-	-	109,946
20	346	Meters	27,419	-	-	-	27,419
21	348	Hydrants	26,410	-	-	-	26,410
22	389	General Plant Land	-	-	-	-	-
23	390	General Plant Structures	331	-	-	-	331
24	390.1	Leasehold Improvements	2,932	-	-	-	2,932
25	391	Office Furniture & Equipment	9,322	-	-	-	9,322
26	393	Warehouse Equipment	24	-	-	-	24
27	394	Tools, Shops, and Garage Equipment	3,931	(49)	-	-	3,882
28	395	Laboratory Equipment	1,040	-	-	-	1,040
29	396	Power Operated Equipment	3	-	-	-	3
30	397	Communications Equipment	14,827	60	-	-	14,887
31	398	Miscellaneous Equipment	479	-	-	-	479
32	398	Intentionally Left Blank	-	-	-	-	-
33			591,416	-	-	-	591,428
34			-	-	-	-	-
35			-	-	-	-	-
36		Total Plant in Service	\$ 591,416	12	\$ -	\$ -	\$ 591,428
37			220,207	-	-	-	220,207
38		Less: Accumulated Depreciation	-	-	-	-	-
39			-	-	-	-	-
40		Net Plant in Service	\$ 371,209	12	\$ -	\$ -	\$ 371,221
41			-	-	-	-	-
42		<u>LESS:</u>					
43		Contributions in Aid of Construction (CIAC)	\$ 21,225	-	-	-	\$ 21,225
44		Less: Accumulated Amortization	984	-	-	-	984
45		Net CIAC (L25 - L26)	20,241	-	-	-	20,241
46		Advances in Aid of Construction (AIAC)	-	-	-	-	-
47		Customer Deposits	1,249	-	-	-	1,249
48		Deferred Income Taxes	48,199	-	-	-	48,199
49			-	-	-	-	-
50			-	-	-	-	-
51		<u>ADD:</u>					
52		Working Capital	5,343	-	-	(2,347)	2,996
53		Deferred Regulatory Assets	-	-	-	-	-
54			-	-	-	-	-
55		Original Cost Rate Base	\$ 306,862	12	\$ -	\$ (2,347)	\$ 304,528

RATE BASE ADJUSTMENT NO. 1 - RUCO RATE BASE ADJUSTMENT

LINE NO.	ACCT NO.	DESCRIPTION	[A]	[B]	[C]
			COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1		Phoenix Meter Shop			
2	394	Tools, Shops, and Garage Equipment	\$ 3,931	\$ (49)	\$ 3,882
3	397	Communications Equipment	14,827	60	14,887
4			<u>\$ 18,758</u>	<u>\$ 12</u>	<u>\$ 18,770</u>
5					

REFERENCES:

Column [A]: Company Filing  
Column [B]: Testimony JMM  
Column [C]: Column [A] + Column [B]

Arizona Water Company - Winkelman  
Docket No. W-01445A-11-0310  
Test Year ended December 31, 2010

Surrebuttal Schedule JMM-6

RATE BASE ADJUSTMENT NO. 2 - NOT USED

RATE BASE ADJUSTMENT NO. 3 - CASH WORKING CAPITAL

LINE NO.	ACCT NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED	[D]	[E]	[F]
1		Working Capital	\$ 5,343	\$ (2,347)	\$ 2,996			
2								
3								
4								
5			Test Year					
6			Adjusted	Revenue	Expense	Net	Lead / Lag	Working Cash
7			Results			Lag Days	Factor	Requirement
8		Staff's Calculation				[B - C]	[D + 365]	[A X E]
9		Purchased Power	\$ 6,822	29.68	30.87	(1.19)	(0.0033)	\$ (22)
10		Payroll	20,662	29.68	14.00	15.68	0.0430	888
11		Purchased Water	-	29.68	-	29.68	0.0813	-
12		Chemicals	5,807	29.68	(18.11)	47.79	0.1309	760
13		Property & Liability Insurance	1,053	29.68	(45.27)	74.95	0.2053	216
14		Workman's Compensation Insurance	241	29.68	(46.50)	76.18	0.2087	50
15		Health Insurance	3,680	29.68	(8.92)	38.60	0.1058	389
16		Other O&M (Excluding Rate Case Expense)	12,202	29.68	(9.27)	38.95	0.1067	1,302
17		Federal Income Taxes	7,530	29.68	37.00	(7.32)	(0.0201)	(151)
18		State Income Taxes	1,659	29.68	37.00	(7.32)	(0.0201)	(33)
19		FICA Taxes	1,549	29.68	14.00	15.68	0.0430	67
20		FUTA & SUTA Taxes	50	29.68	83.10	(53.42)	(0.1464)	(7)
21		Property Taxes	9,162	29.68	212.00	(182.32)	(0.4995)	(4,576)
22		Registration, Svc. Contracts, & Misc. Fees	1,035	29.68	(98.83)	128.51	0.3521	364
23		Retirement Annuities (401k)	1,887	29.68	34.72	(5.04)	(0.0138)	(26)
24								
25								
26			\$ 73,339					\$ (780)
27		Subtotal						
28								
29		Interest Expense	10,268	29.68	91.25	(61.57)	(0.1687)	(1,732)
30		Cost of Equity	-		-	-	-	-
31								
32		Subtotal	\$ 10,268					\$ (1,732)
33								
34								
35		Total	83,606					\$ (2,512)
36								
37		Company Cash Working Capital						\$ (165)
38								
39		Increase/(Decrease)						\$ (2,347)

REFERENCES:

Column [A]: Company Filing  
Column [B]: Direct Testimony JMM  
Column [C]: Column [A] + Column [B]

OPERATING INCOME STATEMENT - ADJUSTED TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY ADJUSTED TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF PROPOSED CHANGES	[E] STAFF RECOMMENDED
1	<u>OPERATING REVENUES:</u>					
2	Residential	\$ 54,242	\$ -	\$ 54,242	\$ 16,328	\$ 70,570
3	Commercial	43,098	-	43,098	-	43,098
4	Industrial	3,089	-	3,089	-	3,089
5	Private Fire Service	-	-	-	-	-
6	Other Water Revenues	-	-	-	-	-
7	Total Water Revenues	\$ 100,429	\$ -	\$ 100,429	\$ 16,328	\$ 116,757
8						
9	Miscellaneous	1,669.00		1,669.00		1,669
10	Total Operating Revenues	\$ 102,098	\$ -	\$ 102,098	\$ 16,328	\$ 118,426
11						
12	<u>OPERATING EXPENSES:</u>					
13	Source of Supply Expenses					
14	Purchased Water	\$ -	\$ -	\$ -	\$ -	\$ -
15	Other	388	(6)	382	-	382
16	Pumping Expenses					
17	Purchased Power	6,781	41	6,822	-	6,822
18	Purchased Gas	-	-	-	-	-
19	Other	4,108	(561)	3,547	-	3,547
20	Water Treatment Expenses	7,361	(11)	7,351	-	7,351
21	Transmission and Distribution Expenses	16,617	(5,782)	10,835	-	10,835
22	Customer Accounting Expenses	10,673	(57)	10,616	-	10,616
23	Sales Expense	-	-	-	-	-
24	Administrative and General Expenses	14,757	(538)	14,219	-	14,219
25	Total Operation and Maintenance Expense	60,687	(6,914)	53,773	-	53,773
26						
27	Depreciation and Amortization Expenses	20,295	2	20,297		20,297
28						
29	Taxes					
30	Federal Income Taxes	445	2,067	2,512	5,018	7,530
31	State Income Taxes	98	455	553	1,105	1,659
32	Property Taxes	8,104	594	8,698	464	9,162
33	Other	1,339	-	1,339	-	1,339
34	Total Taxes	9,986	3,117	13,103	6,587	19,690
35		-	-	-	-	-
36		-	-	-	-	-
37	Total Operating Expenses	90,967	-	87,172	6,587	93,759
38						
39	Operating Income (Loss)	\$ 11,131	\$ 3,795	\$ 14,926	\$ 9,741	\$ 24,667

References:

Column (A): Company Schedule C-1  
Column (B): Schedule JMM-8  
Column (C): Column (A) + Column (B)  
Column (D): Schedules JMM-16 and JMM-17  
Column (E): Column (C) + Column (D)

SUMMARY OF OPERATING INCOME STATEMENT ADJUSTMENTS - TEST YEAR

LINE NO.	ACCT. NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] Reverse Unbilled Expenses ADJ #1 Ref. Sch JMM-10	[C] Fleet Fuel Expense ADJ #2 Ref. Sch JMM-11	[D] Removal of Pumping Transmission and Distribution Projection ADJ #3 Ref. Sch JMM-12	[E] RUCO Miscellaneous Expense Adjustment ADJ #4 Ref. Sch JMM-13	[F] Not Used ADJ #5 Ref. Sch JMM-14	[G] Rate Case Expense ADJ #6 Ref. Sch JMM-15	[H] Not Used ADJ #7 Ref. Sch JMM-16	[I] Income Tax Expense ADJ #8 Ref. Sch JMM-17	[J] Property Expense ADJ #9 Ref. Sch JMM-18	[K] STAFF ADJUSTED
1		OPERATING REVENUES:											
2		Residential	\$ 54,242	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 54,242
3		Commercial	43,088	-	-	-	-	-	-	-	-	-	43,088
4		Industrial	3,089	-	-	-	-	-	-	-	-	-	3,089
5		Private Fire Service	-	-	-	-	-	-	-	-	-	-	-
6		Other Water Revenues	-	-	-	-	-	-	-	-	-	-	-
7		Total Water Revenues	\$ 100,429	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 100,429
8		Miscellaneous	\$ 1,669	-	-	-	-	-	-	-	-	-	\$ 1,669
9		Total Operating Revenues	\$ 102,098	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 102,098
10		OPERATING EXPENSES:											
11		Source of Supply Expenses:											
12		Purchased Water	\$ -	(5)	(1)	-	-	-	-	-	-	-	-
13		Pumping Expenses	6,781	41	-	-	-	-	-	-	-	-	382
14		Purchased Power	-	-	-	-	-	-	-	-	-	-	-
15		Purchased Gas	-	-	-	-	-	-	-	-	-	-	-
16		Other	4,108	(7)	(11)	-	-	-	-	-	-	-	6,822
17		Water Treatment Expenses	7,381	(7)	(3)	(543)	-	-	-	-	-	-	3,547
18		Transmission and Distribution Expenses	16,617	(144)	(36)	(5,603)	-	-	-	-	-	-	7,351
19		Customer Accounting Expenses	10,673	(47)	(10)	-	-	-	-	-	-	-	10,635
20		Sales Expense	-	-	-	-	-	-	-	-	-	-	10,616
21		Administrative and General Expenses	14,757	(48)	(4)	-	-	-	-	-	-	-	14,219
22		Total Operating and Maintenance Expenses	\$ 60,687	\$ (218)	\$ (65)	\$ (6,145)	\$ (35)	\$ -	\$ (451)	\$ -	\$ -	\$ -	\$ 53,773
23		Depreciation and Amortization Expenses	20,295	-	-	-	-	-	-	2	-	-	20,297
24		Taxes											
25		Federal Income Taxes	445	-	-	-	-	-	-	-	-	-	2,512
26		State Income Taxes	96	-	-	-	-	-	-	-	2,067	-	553
27		Property Taxes	8,104	-	-	-	-	-	-	-	455	-	8,698
28		Other	1,339	-	-	-	-	-	-	-	-	594	1,339
29		Total Taxes	\$ 9,986	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,523	\$ 594	\$ 13,103
30		Total Operating Expenses	\$ 90,967	\$ (218)	\$ (65)	\$ (6,145)	\$ (35)	\$ -	\$ (451)	\$ 2	\$ 2,523	\$ 594	\$ 87,172
31		Operating Income (Loss)	\$ 11,131	\$ 218	\$ 65	\$ 6,145	\$ 35	\$ -	\$ 451	\$ (2)	\$ (2,523)	\$ (594)	\$ 14,926

OPERATING INCOME ADJUSTMENT NO. 1 - REVERSE UNBILLED EXPENSES

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF <sup>1</sup> RECOMMENDED
1	Residential	\$ 54,242	\$ -	\$ 54,242
2	Commercial	43,098	-	43,098
3	Industrial	3,089	-	3,089
4	Revenue Adjustments	\$ 100,429	\$ -	\$ 100,429
5				
6	Source Supply - Other	\$ 383	\$ -	\$ 383
7	Unbilled Expenses	5	(5)	-
8	Total Source Supply - Other	\$ 388	\$ (5)	\$ 383
9				
10	Purchased Power	\$ 6,822	\$ -	\$ 6,822
11	Unbilled Expenses	(41)	41	-
12	Total Purchased Power	\$ 6,781	\$ 41	\$ 6,822
13				
14	Pumping Expense - Other	\$ 4,101	\$ -	\$ 4,101
15	Unbilled Expenses	7	(7)	-
16	Total Pumping Expense - Other	\$ 4,108	\$ (7)	\$ 4,101
17				
18	Water Treatment Expenses	\$ 7,354	\$ -	\$ 7,354
19	Unbilled Expenses	7	(7)	-
20	Total Water Treatment Expenses	\$ 7,361	\$ (7)	\$ 7,354
21				
22	Transmission and Distribution Expenses	\$ 16,474	\$ -	\$ 16,474
23	Unbilled Expenses	144	(144)	-
24	Total Transmission and Distribution Expenses	\$ 16,617	\$ (144)	\$ 16,474
25				
26	Customer Accounting Expenses	\$ 10,626	\$ -	\$ 10,626
27	Unbilled Expenses	47	(47)	-
28	Total Customer Accounting Expenses	\$ 10,673	\$ (47)	\$ 10,626
29				
30	Administrative and General Expenses	\$ 14,709	\$ -	\$ 14,709
31	Unbilled Expenses	48	(48)	-
32	Total Administrative and General Expenses	\$ 14,757	\$ (48)	\$ 14,709
33				
34	Total Expense Adjustments	\$ 60,687	\$ (218)	\$ 60,469

References:

Column (A), Company Schedule C-1  
Column (B): Testimony JMM  
Column (C): Column (A) + Column (B)



OPERATING INCOME ADJUSTMENT NO. 2 - FLEET FUEL EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF <sup>1</sup> RECOMMENDED
1	Source Supply - Other	\$ 102,093	\$ -	\$ 102,093
2	Fleet Fuel Expenses	5	(1)	4
3	Total Source Supply - Other	\$ 102,098	\$ (1)	\$ 102,097
4				
5	Pumping Expense - Other	\$ 4,053	\$ -	\$ 4,053
6	Fleet Fuel Expenses	55	(11)	44
7	Total Pumping Expense - Other	\$ 4,108	\$ (11)	\$ 4,097
8				
9	Water Treatment Expenses	\$ 7,344	\$ -	\$ 7,344
10	Fleet Fuel Expenses	17	(3)	14
11	Total Water Treatment Expenses	\$ 7,361	\$ (3)	\$ 7,358
12				
13	Transmission and Distribution Expenses	\$ (16,101)	\$ -	\$ (16,101)
14	Fleet Fuel Expenses	32,718	(36)	32,682
15	Total Transmission and Distribution Expenses	\$ 16,617	\$ (36)	\$ 16,581
16				
17	Customer Accounting Expenses	\$ 1,854	\$ -	\$ 1,854
18	Fleet Fuel Expenses	8,819	(10)	8,809
19	Total Customer Accounting Expenses	\$ 10,673	\$ (10)	\$ 10,664
20				
21	Administrative and General Expenses	\$ 14,739	\$ -	\$ 14,739
22	Fleet Fuel Expenses	18	(4)	14
23	Total Administrative and General Expenses	\$ 14,757	\$ (4)	\$ 14,753
24				
25	Total Expense Adjustments	\$ 155,615	\$ (65)	\$ 155,550
26				
27				
28	Staff's Calculation based on the most recent 12 month gas price of \$ 3.38			
29				
30		Company Pro-forma	Staff's Recalculation	Reduction
31	Source Supply - Other	\$ 5	\$ 4	\$ 1
32	Pumping Expenses Other	55	44	11
33	Water Treatment Expenses	17	14	3
34	Transmission and Distribution Expenses	180	144	36
35	Customer Accounting Expenses	49	39	10
36	Administrative and General Expenses	18	14	4
37	Totals	\$ 324	\$ 259	\$ 65

<sup>1</sup> Amounts do not reflect other adjustments.

References:

Column (A), Company Schedule C-1

Column (B): Testimony JMM

Column (C): Column (A) + Column (B)

OPERATING INCOME ADJUSTMENT NO. 3 - REMOVAL OF PROJECTED EXPENSES

LINE NO.	DESCRIPTION	[A]		[B]		[C]	
		COMPANY PROPOSED		STAFF ADJUSTMENTS		STAFF <sup>1</sup> RECOMMENDED	
1	Pumping Expenses - Other	\$	3,565	\$	-	\$	3,565
2	Normalization of Pumping Expenses		543		(543)	\$	-
3	Total Pumping Expense - Other	\$	4,108	\$	(543)	\$	3,565
4							
5	Transmission and Distribution Expenses	\$	11,015	\$	-	\$	11,015
6	Normalization of Transmission and Distribution Expenses		5,603		(5,603)		-
7	Total Transmission and Distribution Expenses	\$	16,617	\$	(5,603)	\$	11,015

<sup>1</sup> Amounts do not reflect other adjustments.

References:

Column (A), Company Schedule C-1

Column (B): Testimony JMM

Column (C): Column (A) + Column (B)

Arizona Water Company - Winkelman  
Docket No. W-01445A-11-0310  
Test Year ended December 31, 2010

Surrebuttal Schedule JMM-13

OPERATING INCOME ADJUSTMENT NO. 4 - RUCO MISCELLANEOUS EXPENSE ADJUSTMENT

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF <sup>1</sup> RECOMMENDED
1	Administrative and General Expenses	\$ 14,757	\$ (35)	\$ 14,722

<sup>1</sup> Amounts do not reflect other adjustments.

References:

Column (A), Company Schedule C-1  
Column (B): Testimony JMM  
Column (C): Column (A) + Column (B)

Arizona Water Company - Winkelman  
Docket No. W-01445A-11-0310  
Test Year ended December 31, 2010

Surrebuttal Schedule JMM-14

OPERATING INCOME ADJUSTMENT NO. 5 - NOT USED

OPERATING INCOME ADJUSTMENT NO. 6 - RATE CASE EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF <sup>1</sup> RECOMMENDED
1	Administrative and General Expenses	\$ 14,072	\$ -	\$ 14,072
2	Rate Case Expense Pro Forma	685	(451)	234
3	Total Administrative and General	\$ 14,757	\$ (451)	\$ 14,306

Staff's Calculation of Rate Case Expense for Pinal Valley

Line No.	System	Average Number of Customers	[A] T.Y. 2010 Rate Case Expense Estimate / Spread	[B] Normalization Period in Years	[C] Annual Amortization / Pro Forma Rate Case Exp.	[D] T.Y. 2010 Prior Rate Case Expense Charged to O&M - 928.2	[E] Increase / (Decrease)
1	All Systems						
2							
3	Pinal Valley	28,030	206,277.86	3			
4	White Tank	1,927	14,177.38	3			
5	Ajo	679	4,997.47	3			
6	Superstition	23,792	175,085.54	3			
7	Cochise	6,404	47,130.98	3			
8	San Manuel	1,476	10,860.25	3			
9	Oracle	1,521	11,189.57	3			
10	SaddleBrooke Ranch	89	651.28	3			
11	Winkelman	157	1,152.32	3	\$ 384	150	\$ 234
12	Navajo	9,090	66,897.02	3			
13	Verde Valley	10,569	77,779.34	3			
14		83,733	616,199				
15							
16	Rate Case Expense Incurred Last Time		\$ 616,199				
17							
18	Company Proposed Rate Case Expense Pro Forma						\$ 685
19							
20	Staff Adjustment to Rate Case Expense						\$ (451)

<sup>1</sup> Amounts do not reflect other adjustments.

References:

Column (A), Company Schedule C-1  
Column (B), Testimony JMM  
Column (C), Column (A) + Column (B)

OPERATING INCOME ADJUSTMENT NO. 7 - DEPRECIATION EXPENSE ON TEST YEAR PLANT

LINE NO.	ACCT NO.	DESCRIPTION	[A] PLANT In SERVICE Per Staff	[B] NonDepreciable or Fully Depreciated PLANT	[C] DEPRECIABLE PLANT (Col A - Col B)	[D] DEPRECIATION RATE	[E] DEPRECIATION EXPENSE (Col C x Col D)
1	301	Organization Cost	\$ 1	\$ 1	\$ -	0.00%	\$ -
2	302	Franchise Cost	\$ 2,072	\$ 2,072	\$ -	4.00%	\$ -
3	303	Other Intangibles	\$ 61	\$ -	\$ 61	4.91%	\$ 3
4	310.1	Water Rights	\$ 2,911	\$ -	\$ 2,911	0.00%	\$ -
5	310.3	Other Source of Supply Land	\$ 422	\$ -	\$ 422	0.00%	\$ -
6	310.4	Wells - Other	\$ -	\$ -	\$ -	2.50%	\$ -
7	314	Wells	\$ 48,327	\$ -	\$ 48,327	3.13%	\$ 1,513
8	320	Pumping Plant Land	\$ -	\$ -	\$ -	0.00%	\$ -
9	321	Pumping Plant Structures & Improvements	\$ 6,073	\$ -	\$ 6,073	2.86%	\$ 174
10	325	Electric Pumping Equipment	\$ 157,859	\$ -	\$ 157,859	5.88%	\$ 9,282
11	328	Gas Engine Equipment	\$ -	\$ -	\$ -	4.00%	\$ -
12	330	Water Treatment Plant - Land	\$ -	\$ -	\$ -	0.00%	\$ -
13	331	Water Treatment Structures and Improvements	\$ 3,906	\$ -	\$ 3,906	2.50%	\$ 98
14	332	Water Treatment Equipment	\$ 23,287	\$ -	\$ 23,287	2.86%	\$ 666
15	340	Transmission and Distribution - Land	\$ -	\$ -	\$ -	0.00%	\$ -
16	342	Storage Tanks	\$ 28,903	\$ -	\$ 28,903	2.00%	\$ 578
17	343	Transmission and Distribution Mains	\$ 120,932	\$ -	\$ 120,932	1.79%	\$ 2,165
18	344	Fire Sprinkler Taps	\$ -	\$ -	\$ -	2.00%	\$ -
19	345	Services	\$ 109,946	\$ -	\$ 109,946	2.38%	\$ 2,617
20	346	Meters	\$ 27,419	\$ -	\$ 27,419	4.55%	\$ 1,248
21	348	Hydrants	\$ 26,410	\$ -	\$ 26,410	1.82%	\$ 481
22	389	General Plant Land	\$ -	\$ -	\$ -	0.00%	\$ -
23	390	General Plant Structures	\$ 331	\$ -	\$ 331	2.50%	\$ 8
24	390.1	Leasehold Improvements	\$ 2,932	\$ -	\$ 2,932	1.74%	\$ 51
25	391	Office Furniture & Equipment	\$ 9,322	\$ -	\$ 9,322	6.67%	\$ 622
26	393	Warehouse Equipment	\$ 24	\$ -	\$ 24	5.00%	\$ 1
27	394	Tools, Shops, and Garage Equipment	\$ 3,882	\$ -	\$ 3,882	4.00%	\$ 155
28	395	Laboratory Equipment	\$ 1,040	\$ -	\$ 1,040	5.00%	\$ 52
29	396	Power Operated Equipment	\$ 3	\$ -	\$ 3	6.67%	\$ 0
30	397	Communications Equipment	\$ 14,887	\$ -	\$ 14,887	6.67%	\$ 993
31	398	Miscellaneous Equipment	\$ 479	\$ -	\$ 479	3.33%	\$ 16
32		Intentionally Left Blank					
33		Total Plant	\$ 591,428	\$ 2,073	\$ 589,355		\$ 20,721
34							
35		Composite Depreciation Rate (Depr Exp / Depreciable Plant):	2.00%				
36		CIAC: \$	21,225				
37		Amortization of CIAC (Line 35 x Line 36): \$	425				
38							
39		Depreciation Expense Before Amortization of CIAC: \$	20,721				
40		Less Amortization of CIAC: \$	425				
41		Test Year Depreciation Expense - Staff: \$	20,297				
42		Depreciation Expense - Company: \$	20,295				
43		Staff's Total Adjustment: \$	2				

References:

Column [A]: Schedule JMM-4  
Column [B]: From Column [A]  
Column [C]: Column [A] - Column [B]  
Column [D]: Engineering Staff Report  
Column [E]: Column [C] x Column [D]

Arizona Water Company - Winkelman  
Docket No. W-01445A-11-0310  
Test Year ended December 31, 2010

Surrebuttal Schedule JMM-17

OPERATING INCOME ADJUSTMENT NO. 8 - TEST YEAR INCOME TAXES

LINE NO.	DESCRIPTION	COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1	Federal Income Taxes	\$ 445	\$ 2,067	\$ 2,512
2	State Income Taxes	98	455	553
3	Federal and State Income Taxes	\$ 543	\$ 2,523	\$ 3,066

References:

Column (A), Company Schedule C-1

Column (B): Column [C] - Column [A]

Column (C): Schedule JMM-2

OPERATING INCOME ADJUSTMENT NO. 9 - PROPERTY TAX EXPENSE

LINE NO.	Property Tax Calculation	[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues	\$ 102,098	\$ 102,098
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	204,196	\$ 204,196
4	Staff Recommended Revenue, Per Schedule JMM-1	102,098	\$ 118,426
5	Subtotal (Line 4 + Line 5)	306,294	322,622
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	102,098	\$ 107,541
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	204,196	\$ 215,081
10	Plus: 10% of CWIP -	-	-
11	Less: Net Book Value of Licensed Vehicles	-	\$ -
12	Full Cash Value (Line 9 + Line 10 - Line 11)	204,196	\$ 215,081
13	Assessment Ratio	20.5%	20.5%
14	Assessment Value (Line 12 * Line 13)	41,860	\$ 44,092
15	Composite Property Tax Rate (Per Company Schedule)	20.7785%	20.7785%
16			
17	Staff Test Year Adjusted Property Tax (Line 14 * Line 15)	\$ 8,698	
18	Company Proposed Property Tax	8,104	
19			
20	Staff Test Year Adjustment (Line 17-Line 18)	\$ 594	
21	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		\$ 9,162
22	Staff Test Year Adjusted Property Tax Expense (Line 17)		\$ 8,698
23	Increase in Property Tax Expense Due to Increase in Revenue Requirement		\$ 464
24			
25	Increase to Property Tax Expense		\$ 464
26	Increase in Revenue Requirement		16,328
27	Increase to Property Tax per Dollar Increase in Revenue (Line 25/Line 26)		2.839723%



Arizona Water Company - Winkelman  
Docket No. W-01445A-11-0310  
Test Year ended December 31, 2010

**Arizona Water Company Cost of Capital Calculation**  
Capital Structure  
And Weighted Average Cost of Capital  
Staff Recommended and Company Proposed

[A]	[B]	[C]	[D]
<u>Description</u>	<u>Weight (%)</u>	<u>Cost</u>	<u>Weighted Cost</u>
Staff Recommended Structure			
Debt	49.0%	6.8%	3.3%
Common Equity	51.0%	9.4%	<u>4.8%</u>
Weighted Average Cost of Capital			<b>8.1%</b>
Company Proposed Structure <sup>1</sup>			
Debt	49.0%	6.8%	3.3%
Common Equity	51.0%	12.5%	<u>6.4%</u>
Weighted Average Cost of Capital			<b>9.7%</b>

<sup>1</sup> Company Schedule D-1, page 2

[D] : [B] x [C]

# **APPENDIX A**

[illegible]

[illegible]

[illegible]

[illegible]

Table I Saddlebrooke Ranch - Expenses Over the Years and Company's Proforma Adjustment

Year	Acct. 6700	Acct. 6701	Acct. 6720	Acct. 6730	Acct. 6750	Acct. 6760	Acct. 6770	Total
2000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2001	-	-	-	-	-	-	-	-
2002	-	-	-	-	-	-	-	-
2003	-	-	-	-	-	-	-	-
2004	-	-	-	-	-	-	-	-
2005	-	-	-	-	-	-	-	-
2006	-	-	-	-	-	-	-	-
2007	19	33	-	60	214	56	19	401
2008	52	76	-	144	279	0	5	556
2009	52	223	-	166	366	21	9	837
2010	58	299	-	200	622	359	13	1,552
Projected Increase								
2011								1,769
2012								2,142
2013								2,515
2014								2,889
Average of Projected Increase 2013 and 2014								2,702
Increase Over 2010 Amount								1,150

Table I Winkleman - Expenses Over the Years and Company's Proforma Adjustment

Year	Acct. 6700	Acct. 6701	Acct. 6720	Acct. 6730	Acct. 6750	Acct. 6760	Acct. 6770	Total
2000	\$ 347	\$ 530	\$ 672	\$ 719	\$ 1,896	\$ 486	\$ 250	\$ 4,900
2001	343	601	672	435	2,091	606	155	4,903
2002	369	655	672	795	2,196	343	127	5,158
2003	380	652	672	758	1,857	487	269	5,076
2004	354	839	3,723	471	1,634	560	17	7,599
2005	361	765	4,743	299	1,622	429	248	8,467
2006	383	816	4,743	509	2,535	448	127	9,561
2007	390	813	4,743	756	4,131	924	379	12,135
2008	377	670	4,743	1,399	2,596	339	53	10,176
2009	184	772	4,743	574	1,328	410	30	8,041
2010	106	573	2,373	419	1,147	700	21	5,338
Projected Increase								
2011								9,898
2012								10,315
2013								10,732
2014								11,149
Average of Projected Increase 2013 and 2014								10,941
Increase Over 2010 Amount								5,603



Table II Superstion - Selected Statistical Data					
Year	Y-Intercept or "b"	Change in Expenses per Year or "m"	R Squared	R	P-VALUE
11 YEAR	\$ 584,895	\$ 41,367	60.46%	77.76%	0.48%
10 YEAR	\$ 617,192	\$ 36,753	48.98%	69.99%	2.42%
9 YEAR	\$ 666,400	\$ 30,043	33.78%	58.12%	10.07%
8 YEAR	\$ 730,684	\$ 21,658	16.98%	41.21%	31.04%
7 YEAR	\$ 873,921	\$ 3,753	0.57%	7.52%	87.27%
6 YEAR	\$ 1,004,231	\$ (11,884)	4.09%	-20.22%	70.08%
5 YEAR	\$ 1,341,384	\$ (50,786)	53.23%	-72.96%	16.18%
4 YEAR	\$ 1,762,175	\$ (97,541)	98.33%	-99.16%	0.84%
3 YEAR	\$ 1,895,495	\$ (111,825)	99.50%	-99.75%	4.50%

Table II Cochise - Selected Statistical Data					
Year	Y-Intercept or "b"	Change in Expenses per Year or "m"	R Squared	R	P-VALUE
11 YEAR	\$ 239,661	\$ 9,651	35.05%	59.21%	5.50%
10 YEAR	\$ 247,266	\$ 8,565	24.56%	49.55%	14.53%
9 YEAR	\$ 265,951	\$ 6,017	33.52%	33.52%	37.80%
8 YEAR	\$ 320,560	\$ (1,106)	0.51%	-7.13%	86.68%
7 YEAR	\$ 373,679	\$ (7,746)	20.90%	-45.71%	30.24%
6 YEAR	\$ 449,594	\$ (16,856)	66.66%	-81.65%	4.74%
5 YEAR	\$ 417,567	\$ (13,160)	44.41%	-66.64%	21.94%
4 YEAR	\$ 509,722	\$ (23,400)	70.98%	-84.25%	15.75%
3 YEAR	\$ 677,126	\$ (41,336)	98.64%	-99.32%	7.45%

Table II San Manuel - Selected Statistical Data					
Year	Y-Intercept or "b"	Change in Expenses per Year or "m"	R Squared	R	P-VALUE
11 YEAR	\$ 46,531	\$ (25)	0.01%	-0.74%	98.27%
10 YEAR	\$ 48,217	\$ (265)	0.49%	-7.01%	84.74%
9 YEAR	\$ 50,571	\$ (586)	1.76%	-13.25%	73.39%
8 YEAR	\$ 52,356	\$ (819)	2.40%	-15.49%	71.41%
7 YEAR	\$ 54,290	\$ (1,061)	2.69%	-16.39%	72.54%
6 YEAR	\$ 69,100	\$ (2,838)	12.42%	-35.25%	49.32%
5 YEAR	\$ 109,459	\$ (7,495)	53.53%	-73.16%	16.00%
4 YEAR	\$ 166,390	\$ (13,821)	91.60%	-95.71%	4.29%
3 YEAR	\$ 137,230	\$ (10,696)	80.62%	-89.79%	29.02%

Oracle - Selected Statistical Data					
Year	Y-Intercept or "b"	Change in Expenses per Year or "m"	R Squared	R	P-VALUE
11 YEAR	\$ 38,677	\$ 2,236	26.41%	51.39%	10.59%
10 YEAR	\$ 40,218	\$ 2,016	18.10%	42.55%	22.02%
9 YEAR	\$ 43,296	\$ 1,596	9.37%	30.62%	42.30%
8 YEAR	\$ 48,146	\$ 963	2.67%	16.34%	69.91%
7 YEAR	\$ 58,817	\$ (371)	0.30%	-5.49%	90.70%
6 YEAR	\$ 29,608	\$ (2,614)	10.34%	-32.15%	53.43%
5 YEAR	\$ 119,787	\$ (7,492)	53.80%	-73.35%	15.84%
4 YEAR	\$ 180,203	\$ (14,205)	96.98%	-98.48%	1.52%
3 YEAR	\$ 166,617	\$ (12,749)	93.04%	-96.46%	17.00%

Table II SaddleBrooke Ranch - Selected Statistical Data					
Year	Y-Intercept or "b"	Change in Expenses per Year or "m"	R Squared	R	P-VALUE
11 YEAR	\$ -	\$ -	0.00%	0.00%	0.00%
10 YEAR	\$ -	\$ -	0.00%	0.00%	0.00%
9 YEAR	\$ -	\$ -	0.00%	0.00%	0.00%
8 YEAR	\$ -	\$ -	0.00%	0.00%	0.00%
7 YEAR	\$ -	\$ -	0.00%	0.00%	0.00%
6 YEAR	\$ -	\$ -	0.00%	0.00%	0.00%
5 YEAR	\$ -	\$ -	0.00%	0.00%	0.00%
4 YEAR	\$ (2,335)	\$ 373	89.31%	94.51%	5.49%
3 YEAR	\$ (3,499)	\$ 498	94.03%	96.97%	15.72%

Table II					
Winkelman - Selected Statistical Data					
Year	Y-Intercept or "b"	Change in Expenses per Year or "m"	R Squared	R	P-VALUE
11 YEAR	\$ 5,311	\$ 417	30.11%	54.87%	8.05%
10 YEAR	\$ 5,502	\$ 390	22.10%	47.01%	17.04%
9 YEAR	\$ 6,106	\$ 307	11.72%	34.24%	36.71%
8 YEAR	\$ 7,390	\$ 140	2.07%	14.40%	73.36%
7 YEAR	\$ 10,515	\$ (251)	6.36%	-25.21%	58.55%
6 YEAR	\$ 13,703	\$ (633)	26.86%	-51.83%	29.22%
5 YEAR	\$ 19,082	\$ (1,254)	60.85%	-78.01%	11.96%
4 YEAR	\$ 28,069	\$ (2,253)	99.43%	-99.71%	0.29%
3 YEAR	\$ 29,621	\$ (2,419)	99.54%	-99.77%	4.31%

Table III Superstition - Actual 2011 Expenses vs. Company predicted Expenses											
Year	Acct. 6700	Acct. 6701	Acct. 6720	Acct. 6730	Acct. 6750	Acct. 6760	Acct. 6770	Total Actual	Company Predicted	Difference	
2011	\$ 10,633	\$ 58,916	\$ 64,790	\$ 79,069	\$ 90,495	\$ 108,864	\$ 108,275	\$ 521,044	\$ 1,039,932	\$ (518,888)	
Cochise - Actual 2011 Expenses vs. Company predicted Expenses											
Year	Acct. 6700	Acct. 6701	Acct. 6720	Acct. 6730	Acct. 6750	Acct. 6760	Acct. 6770	Total Actual	Company Predicted		
2011	\$ 11,370	\$ 24,304	\$ -	\$ 1,433	\$ 3,695	\$ 38,869	\$ 4,422	\$ 84,093	\$ 345,826	\$ (261,733)	
San Manuel - Actual 2011 Expenses vs. Company predicted Expenses											
Year	Acct. 6700	Acct. 6701	Acct. 6720	Acct. 6730	Acct. 6750	Acct. 6760	Acct. 6770	Total Actual	Company Predicted		
2011	\$ 967	\$ 9,375	\$ 87	\$ 12,275	\$ 3,242	\$ 6,859	\$ 109	\$ 32,914	\$ 46,261	\$ (13,347)	
Oracle - Actual 2011 Expenses vs. Company predicted Expenses											
Year	Acct. 6700	Acct. 6701	Acct. 6720	Acct. 6730	Acct. 6750	Acct. 6760	Acct. 6770	Total Actual	Company Predicted		
2011	\$ 995	\$ 5,719	\$ -	\$ 3,195	\$ 4,182	\$ 8,399	\$ 112	\$ 22,601	\$ 63,271	\$ (40,670)	
Saddlebrooke Ranch - Actual 2011 Expenses vs. Company predicted Expenses											
Year	Acct. 6700	Acct. 6701	Acct. 6720	Acct. 6730	Acct. 6750	Acct. 6760	Acct. 6770	Total Actual	Company Predicted		
2011	\$ 98	\$ 538	\$ -	\$ 244	\$ 301	\$ 964	\$ 11	\$ 2,155	\$ 1,769	\$ 386	
Winkelman - Actual 2011 Expenses vs. Company predicted Expenses											
Year	Acct. 6700	Acct. 6701	Acct. 6720	Acct. 6730	Acct. 6750	Acct. 6760	Acct. 6770	Total Actual	Company Predicted		
2011	\$ 102	\$ 590	\$ -	\$ 257	\$ 337	\$ 790	\$ 12	\$ 2,087	\$ 9,898	\$ (7,811)	

**BEFORE THE ARIZONA CORPORATION COMMISSION**

GARY PIERCE

Chairman

BOB STUMP

Commissioner

SANDRA D. KENNEDY

Commissioner

PAUL NEWMAN

Commissioner

BRENDA BURNS

Commissioner

IN THE MATTER OF THE APPLICATION OF )  
ARIZONA WATER COMPANY, AN ARIZONA )  
CORPORATION, FOR A DETERMINATION )  
OF THE FAIR VALUE OF ITS UTILITY )  
PLANTS AND PROPERTY AND FOR )  
INCREASES IN ITS WATER RATES AND )  
CHARGES FOR UTILITY SERVICE BASED )  
THEREON. )

---

DOCKET NO. W-01445A-11-0310

(RATE DESIGN)

SURREBUTTAL

TESTIMONY

OF

BENTLEY ERDWURM

CONSULTANT

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

MAY 7, 2011



## **TABLE OF CONTENTS**

	<b><u>PAGE</u></b>
I. INTRODUCTION .....	1
II. RATE DESIGN .....	1

## **SCHEDULES**

Typical Bill Analyses (Alternative 1) .....	DBE-1
Rate Recommendations (Alternative 1) .....	DBE-2
Typical Bill Analyses (Alternative 2) .....	DBE-3
Rate Recommendations (Alternative 2) .....	DBE-4

**EXECUTIVE SUMMARY**  
**ARIZONA WATER COMPANY, INC.**  
**DOCKET NO. W-01445A-11-0310**

This testimony includes Staff recommendations for service areas in the Eastern portion of Arizona Water Company, Inc. ("Company") related to rate design and a normalization adjustment proposed by the Company related to use-per-customer. Staff's rate design recommendations conform to the revenue requirement recommendations of Staff witness Mr. Jeffery Michlik as presented in his Surrebuttal testimony in this preceding. The recommendations are consistent with the cost of providing service, and generally include an inclining block structure (with the exception of a flat structure for larger industrial customers (meters  $\geq 6$  inches) and sales for resale).

To provide additional options for the Commission, Staff proposes two sets of rate alternatives for consideration. Alternative 1 most closely follows the design approach presented by Staff in Direct Testimony. Alternative 2 has higher customer charges than Alternative 1. The Company has expressed a desire to recover a higher percentage of revenue through the customer charge (minimum monthly charge). Both alternatives make residential basic needs service available for a nominal charge and both designs promote the efficient use of scarce resources.

Staff modifies its position on the Company's proposed commercial use-per-customer adjustments applicable to the Superstition service area (Apache Junction, Superior and Miami). In Direct Testimony Staff recommended the rejection of all use-per-customer normalization adjustments because the Company's change in use-per-customer estimates – the basis for the normalization adjustments – typically are statistically unstable and vary with the time frame of the analysis (e.g. 10 year vs. 5 year). However, Staff acknowledges that when the adjustments are evaluated on a case-by-case basis, the Superstition-Commercial estimates are robust (consistent under different model formulations) and statistically significant. While Staff acknowledges the appropriateness of some commercial use-per-customer adjustment for the Superstition service area, Staff proposes a scaling-back of the Company's proposed adjustment.

***Summary of Impacts for Rate Alternatives:***

**ALTERNATIVE 1:**

For Superstition 5/8 x 3/4-inch meter residential customers with an average usage of 6,321 gallons would experience an increase of \$9.82, or a 29.0 percent increase in his/her monthly bill, from \$33.84 to \$43.66, under the Company's proposed rates. Under Staff's recommended rates, the same customers would experience an increase of \$1.01, or a 3.0 percent increase in his/her monthly bill, from \$33.84 to \$34.85.

For Superstition 5/8 x 3/4-inch meter residential customers with a median usage of 4,594 gallons would experience an increase of \$8.51, or a 29.4 percent increase in his/her monthly bill, from \$28.91 to \$37.42, under the Company's proposed rates. Under Staff's recommended rates,

the same customers would experience a decrease of \$0.29, or a 1.0 percent decrease in his/her monthly bill, from \$28.91 to \$28.62.

For Bisbee 5/8 x 3/4-inch meter residential customers with a with an average usage of 4,832 gallons would experience an increase of \$6.64, or a 20.5 percent increase in his/her monthly bill, from \$32.43 to \$39.07, under the Company's proposed rates. Under Staff's recommended rates, the same customers would experience a decrease of \$2.08, or a 6.4 percent decrease in his/her monthly bill, from \$32.43 to \$30.35.

For Bisbee 5/8 x 3/4-inch meter residential customers with a with a median usage of 3,308 gallons would experience an increase of \$6.64, or a 26.0 percent increase in his/her monthly bill, from \$25.56 to \$32.20, under the Company's proposed rates. Under Staff's recommended rates, the same customers would experience a decrease of \$2.58, or a 10.1 percent decrease in his/her monthly bill, from \$25.56 to \$22.98.

For Sierra Vista 5/8 x 3/4-inch meter residential customers with an average usage of 7,995 gallons would experience an increase of \$9.49, or a 36.6 percent increase in his/her monthly bill, from \$25.95 to \$35.44, under the Company's proposed rates. Under Staff's recommended rates, the same customers would experience an increase of \$1.70, or a 6.6 percent increase in his/her monthly bill, from \$25.95 to \$27.65.

For Sierra Vista 5/8 x 3/4-inch meter residential customers with a median usage of 5,610 gallons would experience an increase of \$8.57, or a 39.2 percent increase in his/her monthly bill, from \$21.89 to \$30.46, under the Company's proposed rates. Under Staff's recommended rates, the same customers would experience an increase of \$0.74, or a 3.4 percent increase in his/her monthly bill, from \$21.89 to \$22.63.

For San Manuel 5/8 x 3/4-inch meter residential customers with an average usage of 7,139 gallons would experience an increase of \$18.93, or a 43.4 percent increase in his/her monthly bill, from \$43.61 to \$62.54, under the Company's proposed rates. Under Staff's recommended rates, the same customers would experience an increase of \$3.45, or a 7.9 percent increase in his/her monthly bill, from \$43.61 to \$47.06.

For San Manuel 5/8 x 3/4-inch meter residential customers with a median usage of 5,426 gallons would experience an increase of \$14.36, or a 38.0 percent increase in his/her monthly bill, from \$37.82 to \$52.18, under the Company's proposed rates. Under Staff's recommended rates, the same customers would experience an increase of \$2.15, or a 5.7 percent increase in his/her monthly bill, from \$37.82 to \$39.97.

For Oracle 5/8 x 3/4-inch meter residential customers with an average usage of 5,140 gallons would experience an increase of \$7.40, or a 17.2 percent increase in his/her monthly bill, from \$43.05 to \$50.45, under the Company's proposed rates. Under Staff's recommended rates, the same customers would experience a decrease of \$0.61, or a 1.4 percent decrease in his/her monthly bill, from \$43.05 to \$42.44.

For Oracle 5/8 x 3/4-inch meter residential customers with a median usage of 3,958 gallons would experience an increase of \$6.30, or a 17.0 percent increase in his/her monthly bill, from \$37.00 to \$43.30, under the Company's proposed rates. Under Staff's recommended rates, the same customers would experience a decrease of \$1.04, or a 2.8 percent decrease in his/her monthly bill, from \$37.00 to \$35.96.

For SaddleBrooke Ranch 5/8 x 3/4-inch meter residential customers with an average usage of 3,405 gallons would experience an increase of \$11.00, or a 38.0 percent increase in his/her monthly bill, from \$28.96 to \$39.96, under the Company's proposed rates. Under Staff's recommended rates, the same customers would experience an increase of \$2.04, or a 7.0 percent increase in his/her monthly bill, from \$28.96 to \$31.00.

For SaddleBrooke Ranch 5/8 x 3/4-inch meter residential customers with a median usage of 2,567 gallons would experience an increase of \$9.89, or a 38.7 percent increase in his/her monthly bill, from \$25.53 to \$35.42, under the Company's proposed rates. Under Staff's recommended rates, the same customers would experience an increase of \$1.53, or a 6.0 percent increase in his/her monthly bill, from \$25.53 to \$27.06.

For Winkelman 5/8 x 3/4-inch meter residential customers with an average usage of 9,398 gallons would experience an increase of \$9.71, or a 31.6 percent increase in his/her monthly bill, from \$30.74 to \$40.45, under the Company's proposed rates. Under Staff's recommended rates, the same customers would experience a decrease of \$0.28, or a 0.9 percent decrease in his/her monthly bill, from \$30.74 to \$30.46.

For Winkelman 5/8 x 3/4-inch meter residential customers with a median usage of 6,635 gallons would experience an increase of \$7.96, or a 30.9 percent increase in his/her monthly bill, from \$25.75 to \$33.71, under the Company's proposed rates. Under Staff's recommended rates, the same customers would experience a decrease of \$0.63, or a 2.5 percent decrease in his/her monthly bill, from \$25.75 to \$25.12.

## **ALTERNATIVE 2:**

For Superstition 5/8 x 3/4-inch meter residential customers with an average usage of 6,321 gallons would experience an increase of \$9.82, or a 29.0 percent increase in his/her monthly bill, from \$33.84 to \$43.66, under the Company's proposed rates. Under Staff's recommended rates, the same customers would experience an increase of \$0.85, or a 2.5 percent increase in his/her monthly bill, from \$33.84 to \$34.69.

For Superstition 5/8 x 3/4-inch meter residential customers with a median usage of 4,594 gallons would experience an increase of \$8.51, or a 29.4 percent increase in his/her monthly bill, from \$28.91 to \$37.42, under the Company's proposed rates. Under Staff's recommended rates, the same customers would experience an increase of \$0.52, or a 1.8 percent increase in his/her monthly bill, from \$28.91 to \$29.43.

For Bisbee 5/8 x 3/4-inch meter residential customers with a with an average usage of 4,832 gallons would experience an increase of \$6.64, or a 20.5 percent increase in his/her

monthly bill, from \$32.43 to \$39.07, under the Company's proposed rates. Under Staff's recommended rates, the same customers would experience a decrease of \$2.03, or a 6.3 percent decrease in his/her monthly bill, from \$32.43 to \$30.40.

For Bisbee 5/8 x 3/4-inch meter residential customers with a with a median usage of 3,308 gallons would experience an increase of \$6.64, or a 26.0 percent increase in his/her monthly bill, from \$25.56 to \$32.20, under the Company's proposed rates. Under Staff's recommended rates, the same customers would experience a decrease of \$2.09, or an 8.2 percent decrease in his/her monthly bill, from \$25.56 to \$23.47.

For Sierra Vista 5/8 x 3/4-inch meter residential customers with an average usage of 7,995 gallons would experience an increase of \$9.49, or a 36.6 percent increase in his/her monthly bill, from \$25.95 to \$35.44, under the Company's proposed rates. Under Staff's recommended rates, the same customers would experience an increase of \$0.72, or a 2.8 percent increase in his/her monthly bill, from \$25.95 to \$26.67.

For Sierra Vista 5/8 x 3/4-inch meter residential customers with a median usage of 5,610 gallons would experience an increase of \$8.57, or a 39.2 percent increase in his/her monthly bill, from \$21.89 to \$30.46, under the Company's proposed rates. Under Staff's recommended rates, the same customers would experience an increase of \$0.55, or a 2.5 percent increase in his/her monthly bill, from \$21.89 to \$22.44.

For San Manuel 5/8 x 3/4-inch meter residential customers with an average usage of 7,139 gallons would experience an increase of \$18.93, or a 43.4 percent increase in his/her monthly bill, from \$43.61 to \$62.54, under the Company's proposed rates. Under Staff's recommended rates, the same customers would experience an increase of \$1.73, or a 4.0 percent increase in his/her monthly bill, from \$43.61 to \$45.34.

For San Manuel 5/8 x 3/4-inch meter residential customers with a median usage of 5,426 gallons would experience an increase of \$14.36, or a 38.0 percent increase in his/her monthly bill, from \$37.82 to \$52.18, under the Company's proposed rates. Under Staff's recommended rates, the same customers would experience an increase of \$0.74, or a 2.0 percent increase in his/her monthly bill, from \$37.82 to \$38.56.

For Oracle 5/8 x 3/4-inch meter residential customers with an average usage of 5,140 gallons would experience an increase of \$7.40, or a 17.2 percent increase in his/her monthly bill, from \$43.05 to \$50.45, under the Company's proposed rates. Under Staff's recommended rates, the same customers would experience an increase of \$0.47, or a 1.1 percent increase in his/her monthly bill, from \$43.05 to \$43.52.

For Oracle 5/8 x 3/4-inch meter residential customers with a median usage of 3,958 gallons would experience an increase of \$6.30, or a 17.0 percent increase in his/her monthly bill, from \$37.00 to \$43.30, under the Company's proposed rates. Under Staff's recommended rates, the same customers would experience an increase of \$0.24, or a 0.7 percent increase in his/her monthly bill, from \$37.00 to \$37.24.

For SaddleBrooke Ranch 5/8 x 3/4-inch meter residential customers with an average usage of 3,405 gallons would experience an increase of \$11.00, or a 38.0 percent increase in his/her monthly bill, from \$28.96 to \$39.96, under the Company's proposed rates. Under Staff's recommended rates, the same customers would experience an increase of \$3.41, or an 11.8 percent increase in his/her monthly bill, from \$28.96 to \$32.37.

For SaddleBrooke Ranch 5/8 x 3/4-inch meter residential customers with a median usage of 2,567 gallons would experience an increase of \$9.89, or a 38.7 percent increase in his/her monthly bill, from \$25.53 to \$35.42, under the Company's proposed rates. Under Staff's recommended rates, the same customers would experience an increase of \$3.08, or a 12.1 percent increase in his/her monthly bill, from \$25.53 to \$28.61.

For Winkelman 5/8 x 3/4-inch meter residential customers with an average usage of 9,398 gallons would experience an increase of \$9.71, or a 31.6 percent increase in his/her monthly bill, from \$30.74 to \$40.45, under the Company's proposed rates. Under Staff's recommended rates, the same customers would experience a decrease of \$0.78, or a 2.5 percent decrease in his/her monthly bill, from \$30.74 to \$29.96.

For Winkelman 5/8 x 3/4-inch meter residential customers with a median usage of 6,635 gallons would experience an increase of \$7.96, or a 30.9 percent increase in his/her monthly bill, from \$25.75 to \$33.71, under the Company's proposed rates. Under Staff's recommended rates, the same customers would experience a decrease of \$0.46, or a 1.8 percent decrease in his/her monthly bill, from \$25.75 to \$25.29.

1     **I.     INTRODUCTION**

2     **Q.     Please state your name, occupation, and business address.**

3     A.     My name is Bentley Erdwurm. I am a Consultant employed by the Arizona Corporation  
4           Commission ("ACC" or "Commission") in the Utilities Division ("Staff"). My business  
5           address is 1200 West Washington Street, Phoenix, Arizona 85007.

6  
7     **Q.     Did you prepare Direct prefiled testimony in this proceeding?**

8     A.     Yes.

9  
10    **Q.     What is the scope of your testimony in this case?**

11   A.     I am presenting Staff's analysis and recommendations regarding rate design as conformed  
12           to Staff's revenue requirement recommendation as presented in the surrebuttal testimony  
13           of Mr. Jeffery Michlik. Staff proposes two rate design recommendations, Alternative 1  
14           and Alternative 2. The Alternative 2 recommendations generally have higher customer  
15           charges (minimum monthly charges) than the Alternative 1 recommendations. I also  
16           address the Arizona Water Company's ("Company") normalization of billing determinates  
17           for trends in use-per-customer. Staff herein modifies its position on the Company's  
18           proposed commercial use-per-customer adjustments applicable to the Superstition service  
19           area (Apache Junction, Superior and Miami).

20  
21    **II.    RATE DESIGN**

22    **Q.     Please describe the Alternative 1 and Alternative 2 rate design recommendations.**

23   A.     Alternative 1 most closely follows the design approach presented by Staff in Direct  
24           Testimony. To make a basic needs level of service available to system residential  
25           customers and to encourage efficient resource use, Staff in designing Alternative 1 has  
26           limited both the customer charge and the charge for first tier (or block) consumption (1st

1 3000 gallons per month). This design mitigates impact on lower-use customers, including  
2 those with zero or negligible use. In designing Alternative 2, Staff has been most focused  
3 on mitigating the increase in the charge for first tier (or block) consumption (1st 3000  
4 gallons per month). Alternative 2 has higher customer charges than Alternative 1. The  
5 goal of Alternative 2 is to mitigate percentage increases to customers with use at or  
6 slightly below mean and median levels. Customers with negligible or zero usage are  
7 atypical and are often seasonal residents. Alternative 2 does not seek to mitigate  
8 percentage bill increases to these extremely low-use customers because they will have  
9 small bills increases (in absolute rather than percentage terms) under any rate design.

10  
11 Alternative 2 results in the customer charge (monthly minimum charge) accounting for a  
12 higher percentage of the bill. The Company has expressed a desire to recover a higher  
13 percentage of revenue through the customer charge. Both alternatives make residential  
14 basic needs service available for a nominal charge and both designs promote the efficient  
15 use of water.

16  
17 **Q. Did Staff prepare typical bill analyses?**

18 A. Yes. Schedule DBE-1 shows monthly bills under present rates, under Staff's Alternative 1  
19 surrebuttal rate proposal and under Company-proposed rates for the various service areas  
20 in the Eastern portion of the Company's system.

21  
22 **Q. Did Staff prepare a summary of its recommended rates?**

23 A. Yes. Schedule DBE-2 presents Staff's Alternative 1 surrebuttal rate proposal, along with  
24 details on rate tiers (blocks).  
25



1 **Q. Did Staff prepare analogous schedules for Staffs Alternative 2 recommended rates?**

2 A. Yes. Schedule DBE-3 shows monthly bills under Staff's Alternative 2 Surrebuttal rate  
3 proposal and under Company-proposed rates for the various service areas in the Eastern  
4 portion of the Company's system. Schedule DBE-4 presents Staff's Alternative 2  
5 Surrebuttal rate proposal, along with details on rate tiers (blocks).

6  
7 **Q. May Alternative 1 rates be applied to some systems and Alternative 2 rates to  
8 others?**

9 A. In some cases, yes. For example, the Commission could accept an Alternative 1 proposal  
10 for Superstition and an Alternative 2 proposal for Bisbee. However, the same rate  
11 alternative should be used for Bisbee and Sierra Vista to facilitate future rate  
12 consolidation. Likewise, the same rate alternative should be used for San Manuel, Oracle,  
13 and SaddleBrooke Ranch.

14  
15 **Q. Did Staff reevaluate opportunities for rate consolidation?**

16 A. Yes. However, full consolidation of rates over the entire Eastern system remains  
17 impractical at this time, for the same reasons detailed in Staff's Direct testimony. Moving  
18 to consolidated rates would create large bill increases for customers on systems that have  
19 lower than average rates. Apache Junction, Superior, and Miami are presently  
20 consolidated for ratemaking purposes (as "Superstition"), and this consolidation was  
21 maintained in Staff's Direct and Surrebuttal rate recommendations. Staff previously has  
22 reviewed the possibility of consolidating Bisbee and Sierra Vista under uniform "Cochise"  
23 rates; however, customer impacts on Sierra Vista customers would have been too great.  
24 Bisbee and Sierra Vista presently have the same customer charge, a feature that was  
25 maintained in the Staff Direct and Alternative 1 Surrebuttal recommendations. The  
26 Company also did not propose full consolidation for Bisbee and Sierra Vista.

1 Staff continues to recommend maintaining San Manuel, SaddleBrooke Ranch and Oracle  
2 as stand-alone systems for rate making purposes at this time because of the adverse  
3 impacts to San Manuel and SaddleBrooke Ranch customers associated with consolidation.  
4 However, Staff believes that the Oracle and SaddleBrooke systems should eventually be  
5 fully consolidated since they are the same system. For this reason Staff has proposed  
6 identical commodity rates for SaddleBrooke and Oracle. Staff continues to recommend  
7 that Winkleman also be maintained as a stand-alone system at this time.

8  
9 **Q. Please briefly discuss the “normalization of billing determinates”, which is based on**  
10 **the Company’s estimation of annual growth/decline in usage per customer. Please**  
11 **explain the purpose of this adjustment.**

12 A. This “normalization” is intended to adjust sales for trends in use-per-customer. In some  
13 cases, the Company has adjusted sales levels downward through this normalization  
14 process. This can result in higher rates because revenue requirement targets will be  
15 divided by reduced sales levels; the quotient (price) increases when a fraction’s  
16 denominator (sales) falls, other things constant.

17  
18 **Q. Why is Staff modifying its recommendation on the Company’s normalization of**  
19 **billing determinates for trends in use per customer?**

20 A. In Staff’s Direct Testimony, Staff recommended rejection of all normalization adjustments  
21 based on the Company’s estimates of trends in use per customer. The adjustments are  
22 based on slope coefficients determined by statistical regression analysis. Many of the  
23 coefficients vary significantly when the analysis is conducted over varying time frames  
24 (e.g., ten vs. five years). Consequently, adjustments based on these unstable coefficients  
25 cannot be considered known and measurable. However, Staff acknowledges that when  
26 the adjustments are evaluated on a case-by-case basis, the Superstition-Commercial

1 estimates are robust and statistically significant. Estimates are "robust" when they are  
2 consistent under different reasonable formulations of the statistical models (e.g., 10 years  
3 of data vs. 5 years of data, or different explanatory variables). The Superstition service  
4 area covers Apache Junction, Superior and Miami.

5  
6 **Q. For the Superstition commercial use-per-customer normalization adjustments, is**  
7 **Staff now recommending full acceptance of the approach proposed by the Company?**

8 A. No. Staff proposes that the Company's adjustment be scaled back in two ways. First,  
9 Staff proposes a more conservative adjustment based on the upper bound of a 99 percent  
10 confidence interval constructed around the slope coefficient, rather on the more negative  
11 (larger in absolute value) slope coefficient itself. To put this into perspective, statistical  
12 modeling indicates that commercial use-per-customer is declining at 2.888 percent per  
13 year. The upper bound of the 99 percent confidence interval has a smaller absolute value  
14 and is more conservative. The commercial use-per-customer based on the upper bound of  
15 the confidence interval declines at only 1.002 percent per year. The 1.002 percent per  
16 year estimate means that based on water use and explanatory variables (explaining water  
17 use) with the magnitude and variation similar to the sample data, one expects that 99.5  
18 percent of the time the decrease in water use per year will be at least 1.002 percent (0.5  
19 percent -- only 1/2 of 1 percent -- of results are above the interval and 0.5 percent -- 1/2 of  
20 1 percent -- are below the interval).

21  
22 The adjustments are further scaled back by multiplying by a factor of 71.58 percent, which  
23 represents the non-commodity portion of revenue. The adjustment should not apply to the  
24 commodity portion (the cost of the water commodity). Application of this factor reduces  
25 the Superstition commercial use-per-customer adjustment factor to a decrease of 0.717

1           percent (i.e., approximately seven tenths of 1 percent, which is only 25 percent of the  
2           Company's proposed factor).

3  
4       **Q.    Have you confirmed that 2011 commercial Superstition sales have actually declined**  
5       **as predicted by the statistical models?**

6       A.    Yes.

7  
8       **Q.    Do you believe that Commission acceptance of a use-per-customer adjustment is in**  
9       **this instance in the public interest?**

10      A.    Yes. The public interest is bolstered when utilities face incentives that encourage them to  
11      support public policy objectives of eliminating the waste of scarce resources and  
12      encouraging the efficient use of these resources. To the extent possible, a utility should  
13      not be penalized for supporting a public policy goal that reduces its sales. The approach  
14      proposed by the Company, as modified by Staff, should be approved by the Commission  
15      for Superstition only. Staff continues to recommend rejection of the Company's other  
16      use-per-customer proposals (for the other systems).

17  
18      **Q.    Does this conclude your Direct Testimony?**

19      A.    Yes, it does.

# ALTERNATIVE 1

Superstition / Apache Junction - Superior - Miami  
Typical Bill Analysis  
General Service 5/8 x 3/4-Inch Meter

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Change	Percent Change
Average Usage	6,321	\$33.84	\$43.66	\$ 9.82	29.02%
Median Usage	4,594	\$28.91	\$37.42	\$ 8.51	29.44%
<b>Staff Recommended</b>					
Average Usage	6,321	\$33.84	\$34.85	\$ 1.01	2.98%
Median Usage	4,594	\$28.91	\$28.62	\$ (0.29)	-1.00%

Present & Proposed Rates (Without Taxes)  
General Service 5/8 x 3/4-Inch Meter

Present		Company Proposed		Staff Recommended	
3/4"		3/4"		3/4"	
Minimum Charge	\$ 17.52		\$ 23.00		\$ 17.48
1st Tier Rate	2.2820		2.8882		1.7930
1st Tier Breakover	3,000		3,000		3,000
2nd Tier Rate	2.8527		3.6103		3.6110
2nd Tier Breakover	10,000		10,000		10,000
3rd Tier Rate	3.5663		4.5129		5.5890
<b>Consumption</b>					
Gallons	Present Bill	Company Bill and % Change		Staff Bill and % Change	
-	\$17.52	\$23.00	31.28%	\$17.48	-0.23%
1,000	\$19.80	\$25.89	30.76%	\$19.27	-2.68%
2,000	\$22.08	\$28.78	30.34%	\$21.07	-4.57%
3,000	\$24.37	\$31.66	29.91%	\$22.86	-6.20%
4,000	\$27.22	\$35.27	29.57%	\$26.47	-2.76%
5,000	\$30.07	\$38.89	29.33%	\$30.08	0.03%
6,000	\$32.92	\$42.50	29.10%	\$33.69	2.34%
7,000	\$35.78	\$46.11	28.87%	\$37.30	4.25%
8,000	\$38.63	\$49.72	28.71%	\$40.91	5.90%
9,000	\$41.48	\$53.33	28.57%	\$44.53	7.35%
10,000	\$44.33	\$56.94	28.45%	\$48.14	8.59%
11,000	\$47.90	\$61.45	28.29%	\$53.73	12.17%
12,000	\$51.47	\$65.96	28.15%	\$59.31	15.23%
13,000	\$55.03	\$70.48	28.08%	\$64.90	17.94%
14,000	\$58.60	\$74.99	27.97%	\$70.49	20.29%
15,000	\$62.17	\$79.50	27.88%	\$76.08	22.37%
16,000	\$65.73	\$84.01	27.81%	\$81.67	24.25%
17,000	\$69.30	\$88.53	27.75%	\$87.26	25.92%
18,000	\$72.87	\$93.04	27.68%	\$92.85	27.42%
19,000	\$76.43	\$97.55	27.63%	\$98.44	28.80%
20,000	\$80.00	\$102.07	27.59%	\$104.03	30.04%
25,000	\$97.83	\$124.63	27.39%	\$131.97	34.90%
30,000	\$115.66	\$147.19	27.26%	\$159.92	38.27%
35,000	\$133.49	\$169.76	27.17%	\$187.86	40.73%
40,000	\$151.32	\$192.32	27.09%	\$215.81	42.62%
45,000	\$169.16	\$214.89	27.03%	\$243.75	44.09%
50,000	\$186.99	\$237.45	26.99%	\$271.70	45.30%
75,000	\$276.14	\$350.27	26.85%	\$411.42	48.99%
100,000	\$365.30	\$463.09	26.77%	\$551.15	50.88%

# ALTERNATIVE 1

Cochise-Bisbee  
Typical Bill Analysis  
General Service 5/8 x 3/4-Inch Meter

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Change	Percent Change
Average Usage	4,832	\$ 32.43	\$ 39.07	\$ 6.64	20.47%
Median Usage	3,308	\$ 25.56	\$ 32.20	\$ 6.64	25.98%

Staff Recommended

Average Usage	4,832	\$ 32.43	\$ 30.35	\$ (2.08)	-6.41%
Median Usage	3,308	\$ 25.56	\$ 22.98	\$ (2.58)	-10.09%

Present & Proposed Rates (Without Taxes)  
General Service 5/8 x 3/4-Inch Meter

Present	Company Proposed	Staff Recommended
3/4"	3/4"	3/4"
Minimum Charge \$ 13.36	\$ 20.00	\$ 13.52
1st Tier Rate 3.6039	3.6039	2.6550
1st Tier Breakover 3,000	3,000	3,000
2nd Tier Rate 4.5049	4.5049	4.8410
2nd Tier Breakover 10,000	10,000	10,000
3rd Tier Rate 5.6312	5.6311	6.4540

Consumption

Gallons	Present Bill	Company Bill and % Change	Staff Bill and % Change
-	\$13.36	\$20.00 49.70%	\$13.52 1.20%
1,000	\$16.96	\$23.60 39.15%	\$16.18 -4.60%
2,000	\$20.57	\$27.21 32.28%	\$18.83 -8.46%
3,000	\$24.17	\$30.81 27.47%	\$21.49 -11.09%
4,000	\$28.68	\$35.32 23.15%	\$26.33 -8.19%
5,000	\$33.18	\$39.82 20.01%	\$31.17 -6.06%
6,000	\$37.69	\$44.33 17.62%	\$36.01 -4.46%
7,000	\$42.19	\$48.83 15.74%	\$40.85 -3.18%
8,000	\$46.70	\$53.34 14.22%	\$45.69 -2.16%
9,000	\$51.20	\$57.84 12.97%	\$50.53 -1.31%
10,000	\$55.71	\$62.35 11.92%	\$55.37 -0.61%
11,000	\$61.34	\$67.98 10.82%	\$61.83 0.80%
12,000	\$66.97	\$73.61 9.91%	\$68.28 1.96%
13,000	\$72.60	\$79.24 9.15%	\$74.73 2.93%
14,000	\$78.23	\$84.87 8.49%	\$81.19 3.78%
15,000	\$83.86	\$90.50 7.92%	\$87.64 4.51%
16,000	\$89.49	\$96.13 7.42%	\$94.10 5.15%
17,000	\$95.12	\$101.76 6.98%	\$100.55 5.71%
18,000	\$100.76	\$107.39 6.58%	\$107.00 6.19%
19,000	\$106.39	\$113.03 6.24%	\$113.46 6.65%
20,000	\$112.02	\$118.66 5.93%	\$119.91 7.04%
25,000	\$140.17	\$146.81 4.74%	\$152.18 8.57%
30,000	\$168.33	\$174.97 3.94%	\$184.45 9.58%
35,000	\$196.49	\$203.12 3.37%	\$216.72 10.30%
40,000	\$224.64	\$231.28 2.96%	\$248.99 10.84%
45,000	\$252.80	\$259.43 2.62%	\$281.26 11.26%
50,000	\$280.95	\$287.59 2.36%	\$313.53 11.60%
75,000	\$421.73	\$428.37 1.57%	\$474.88 12.60%
100,000	\$562.51	\$569.14 1.18%	\$636.23 13.11%

# ALTERNATIVE 1

Cochise-Sierra Vista  
Typical Bill Analysis  
General Service 5/8 x 3/4-Inch Meter

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Change	Percent Change
Average Usage	7,995	\$ 25.95	\$ 35.44	\$ 9.49	36.57%
Median Usage	5,610	\$ 21.89	\$ 30.46	\$ 8.57	39.15%

Staff Recommended

Average Usage	7,995	\$ 25.95	\$ 27.65	\$ 1.70	6.55%
Median Usage	5,610	\$ 21.89	\$ 22.63	\$ 0.74	3.38%

Present & Proposed Rates (Without Taxes)  
General Service 5/8 x 3/4-Inch Meter

Present	Company Proposed	Staff Recommended
3/4"	3/4"	3/4"
Minimum Charge \$ 13.36	\$ 20.00	\$ 13.52
1st Tier Rate 1.3626	1.6705	1.2070
1st Tier Breakover 3,000	3,000	3,000
2nd Tier Rate 1.7032	2.0881	2.1050
2nd Tier Breakover 10,000	10,000	10,000
3rd Tier Rate 2.1290	2.6102	2.8960

Consumption

Gallons	Present Bill	Company Bill and % Change	Staff Bill and % Change
-	\$13.36	\$20.00 49.70%	\$13.52 1.20%
1,000	\$14.72	\$21.67 47.21%	\$14.73 0.07%
2,000	\$16.09	\$23.34 45.06%	\$15.93 -0.99%
3,000	\$17.45	\$25.01 43.32%	\$17.14 -1.78%
4,000	\$19.15	\$27.10 41.51%	\$19.25 0.52%
5,000	\$20.85	\$29.19 40.00%	\$21.35 2.40%
6,000	\$22.56	\$31.28 38.65%	\$23.46 3.99%
7,000	\$24.26	\$33.36 37.51%	\$25.56 5.36%
8,000	\$25.96	\$35.45 36.56%	\$27.67 6.59%
9,000	\$27.67	\$37.54 35.67%	\$29.77 7.59%
10,000	\$29.37	\$39.63 34.93%	\$31.88 8.55%
11,000	\$31.50	\$42.24 34.10%	\$34.77 10.38%
12,000	\$33.63	\$44.85 33.36%	\$37.67 12.01%
13,000	\$35.76	\$47.46 32.72%	\$40.56 13.42%
14,000	\$37.89	\$50.07 32.15%	\$43.46 14.70%
15,000	\$40.02	\$52.68 31.63%	\$46.36 15.84%
16,000	\$42.14	\$55.29 31.21%	\$49.25 16.87%
17,000	\$44.27	\$57.90 30.79%	\$52.15 17.80%
18,000	\$46.40	\$60.51 30.41%	\$55.04 18.62%
19,000	\$48.53	\$63.12 30.06%	\$57.94 19.39%
20,000	\$50.66	\$65.73 29.75%	\$60.84 20.09%
25,000	\$61.31	\$78.78 28.49%	\$75.32 22.85%
30,000	\$71.95	\$91.83 27.63%	\$89.80 24.81%
35,000	\$82.60	\$104.88 26.97%	\$104.28 26.25%
40,000	\$93.24	\$117.93 26.48%	\$118.76 27.37%
45,000	\$103.89	\$130.98 26.08%	\$133.24 28.25%
50,000	\$114.53	\$144.04 25.77%	\$147.72 28.98%
75,000	\$167.76	\$209.29 24.76%	\$220.12 31.21%
100,000	\$220.98	\$274.54 24.24%	\$292.52 32.37%

# ALTERNATIVE 1

San Manuel  
Typical Bill Analysis  
General Service 5/8 x 3/4-Inch Meter

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Change	Percent Change
Average Usage	7,139	\$ 43.61	\$ 62.54	\$ 18.93	43.41%
Median Usage	5,426	\$ 37.82	\$ 52.18	\$ 14.36	37.97%

Staff Recommended

Average Usage	7,139	\$ 43.61	\$ 47.06	\$ 3.45	7.91%
Median Usage	5,426	\$ 37.82	\$ 39.97	\$ 2.15	5.68%

Present & Proposed Rates (Without Taxes)  
General Service 5/8 x 3/4-Inch Meter

Present	Company Proposed	Staff Recommended
3/4"	3/4"	3/4"
Minimum Charge \$ 21.52	\$ 23.00	\$ 21.24
1st Tier Rate 2.7022	4.8370	2.8960
1st Tier Breakover 3,000	3,000	3,000
2nd Tier Rate 3.3775	6.0462	4.1390
2nd Tier Breakover 10,000	10,000	10,000
3rd Tier Rate 4.2221	7.5578	6.9120

Consumption

Gallons	Present Bill	Company Bill and % Change	Staff Bill and % Change
-	\$21.52	\$23.00 6.88%	\$21.24 -1.30%
1,000	\$24.22	\$27.84 14.95%	\$24.14 -0.33%
2,000	\$26.92	\$32.67 21.36%	\$27.03 0.41%
3,000	\$29.63	\$37.51 26.59%	\$29.93 1.01%
4,000	\$33.00	\$43.56 32.00%	\$34.07 3.24%
5,000	\$36.38	\$49.60 36.34%	\$38.21 5.03%
6,000	\$39.76	\$55.65 39.96%	\$42.35 6.51%
7,000	\$43.14	\$61.70 43.02%	\$46.48 7.74%
8,000	\$46.51	\$67.74 45.65%	\$50.62 8.84%
9,000	\$49.89	\$73.79 47.91%	\$54.76 9.76%
10,000	\$53.27	\$79.83 49.86%	\$58.90 10.57%
11,000	\$57.49	\$87.39 52.01%	\$65.81 14.47%
12,000	\$61.71	\$94.95 53.86%	\$72.73 17.86%
13,000	\$65.94	\$102.51 55.46%	\$79.64 20.78%
14,000	\$70.16	\$110.07 56.88%	\$86.55 23.36%
15,000	\$74.38	\$117.62 58.13%	\$93.46 25.65%
16,000	\$78.60	\$125.18 59.26%	\$100.37 27.70%
17,000	\$82.82	\$132.74 60.28%	\$107.29 29.55%
18,000	\$87.05	\$140.30 61.17%	\$114.20 31.19%
19,000	\$91.27	\$147.85 61.99%	\$121.11 32.69%
20,000	\$95.49	\$155.41 62.75%	\$128.02 34.07%
25,000	\$116.60	\$193.20 65.69%	\$162.58 39.43%
30,000	\$137.71	\$230.99 67.74%	\$197.14 43.16%
35,000	\$158.82	\$268.78 69.24%	\$231.70 45.89%
40,000	\$179.93	\$306.57 70.38%	\$266.26 47.98%
45,000	\$201.04	\$344.36 71.29%	\$300.82 49.63%
50,000	\$222.15	\$382.14 72.02%	\$335.38 50.97%
75,000	\$327.71	\$571.09 74.27%	\$508.18 55.07%
100,000	\$433.26	\$760.03 75.42%	\$680.98 57.18%



# ALTERNATIVE 1

Oracle  
Typical Bill Analysis  
General Service 5/8 x 3/4-Inch Meter

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Change	Percent Change
Average Usage	5,140	\$ 43.05	\$ 50.45	\$ 7.40	17.19%
Median Usage	3,958	\$ 37.00	\$ 43.30	\$ 6.30	17.03%

Staff Recommended

Average Usage	5,140	\$ 43.05	\$ 42.44	\$ (0.61)	-1.42%
Median Usage	3,958	\$ 37.00	\$ 35.96	\$ (1.04)	-2.81%

Present & Proposed Rates (Without Taxes)  
General Service 5/8 x 3/4-Inch Meter

Present	Company Proposed	Staff Recommended
3/4"	3/4"	3/4"
Minimum Charge \$ 19.83	\$ 23.00	\$ 18.83
1st Tier Rate 4.0922	4.8370	3.9580
1st Tier Breakover 3,000	3,000	3,000
2nd Tier Rate 5.1151	6.0462	5.4850
2nd Tier Breakover 10,000	10,000	10,000
3rd Tier Rate 6.3938	7.5578	7.8120

Consumption

Gallons	Present Bill	Company Bill and % Change	Staff Bill and % Change
-	\$19.83	\$23.00 15.99%	\$18.83 -5.04%
1,000	\$23.92	\$27.84 16.39%	\$22.79 -4.72%
2,000	\$28.01	\$32.67 16.64%	\$26.75 -4.50%
3,000	\$32.11	\$37.51 16.82%	\$30.70 -4.39%
4,000	\$37.22	\$43.56 17.03%	\$36.19 -2.77%
5,000	\$42.34	\$49.60 17.15%	\$41.67 -1.58%
6,000	\$47.45	\$55.65 17.28%	\$47.16 -0.61%
7,000	\$52.57	\$61.70 17.37%	\$52.64 0.13%
8,000	\$57.68	\$67.74 17.44%	\$58.13 0.78%
9,000	\$62.80	\$73.79 17.50%	\$63.61 1.29%
10,000	\$67.91	\$79.83 17.55%	\$69.10 1.75%
11,000	\$74.31	\$87.39 17.60%	\$76.91 3.50%
12,000	\$80.70	\$94.95 17.66%	\$84.72 4.98%
13,000	\$87.09	\$102.51 17.71%	\$92.54 6.26%
14,000	\$93.49	\$110.07 17.73%	\$100.35 7.34%
15,000	\$99.88	\$117.62 17.76%	\$108.16 8.29%
16,000	\$106.28	\$125.18 17.78%	\$115.97 9.12%
17,000	\$112.67	\$132.74 17.81%	\$123.78 9.86%
18,000	\$119.06	\$140.30 17.84%	\$131.60 10.53%
19,000	\$125.46	\$147.85 17.85%	\$139.41 11.12%
20,000	\$131.85	\$155.41 17.87%	\$147.22 11.66%
25,000	\$163.82	\$193.20 17.93%	\$186.28 13.71%
30,000	\$195.79	\$230.99 17.98%	\$225.34 15.09%
35,000	\$227.76	\$268.78 18.01%	\$264.40 16.09%
40,000	\$259.73	\$306.57 18.03%	\$303.46 16.84%
45,000	\$291.70	\$344.36 18.05%	\$342.52 17.42%
50,000	\$323.66	\$382.14 18.07%	\$381.58 17.90%
75,000	\$483.51	\$571.09 18.11%	\$576.88 19.31%
100,000	\$643.35	\$760.03 18.14%	\$772.18 20.02%

# ALTERNATIVE 1

SaddleBrooke Ranch  
Typical Bill Analysis  
General Service 5/8 x 3/4-Inch Meter

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Change	Percent Change
Average Usage	3,405	\$ 28.96	\$ 39.96	\$ 11.00	37.98%
Median Usage	2,567	\$ 25.53	\$ 35.42	\$ 9.89	38.74%
Staff Recommended					
Average Usage	3,405	\$ 28.96	\$ 31.00	\$ 2.04	7.04%
Median Usage	2,567	\$ 25.53	\$ 27.06	\$ 1.53	5.99%

Present & Proposed Rates (Without Taxes)  
General Service 5/8 x 3/4-Inch Meter

Present	Company Proposed	Staff Recommended
3/4"	3/4"	3/4"
Minimum Charge \$ 15.00	\$ 23.00	\$ 16.90
1st Tier Rate 4.1000	4.8370	3.9580
1st Tier Breakover 3,000	3,000	3,000
2nd Tier Rate 4.1000	6.0462	5.4850
2nd Tier Breakover 10,000	10,000	10,000
3rd Tier Rate 4.1000	7.5578	7.8120

Consumption Gallons	Present Bill	Company Bill and % Change		Staff Bill and % Change	
-	\$15.00	\$23.00	53.33%	\$16.90	12.67%
1,000	\$19.10	\$27.84	45.76%	\$20.86	9.21%
2,000	\$23.20	\$32.67	40.82%	\$24.82	6.98%
3,000	\$27.30	\$37.51	37.40%	\$28.77	5.38%
4,000	\$31.40	\$43.56	38.73%	\$34.26	9.11%
5,000	\$35.50	\$49.60	39.72%	\$39.74	11.94%
6,000	\$39.60	\$55.65	40.53%	\$45.23	14.22%
7,000	\$43.70	\$61.70	41.19%	\$50.71	16.04%
8,000	\$47.80	\$67.74	41.72%	\$56.20	17.57%
9,000	\$51.90	\$73.79	42.18%	\$61.68	18.84%
10,000	\$56.00	\$79.83	42.55%	\$67.17	19.95%
11,000	\$60.10	\$87.39	45.41%	\$74.98	24.76%
12,000	\$64.20	\$94.95	47.90%	\$82.79	28.96%
13,000	\$68.30	\$102.51	50.09%	\$90.61	32.66%
14,000	\$72.40	\$110.07	52.03%	\$98.42	35.94%
15,000	\$76.50	\$117.62	53.75%	\$106.23	38.86%
16,000	\$80.60	\$125.18	55.31%	\$114.04	41.49%
17,000	\$84.70	\$132.74	56.72%	\$121.85	43.86%
18,000	\$88.80	\$140.30	58.00%	\$129.67	46.02%
19,000	\$92.90	\$147.85	59.15%	\$137.48	47.99%
20,000	\$97.00	\$155.41	60.22%	\$145.29	49.78%
25,000	\$117.50	\$193.20	64.43%	\$184.35	56.89%
30,000	\$138.00	\$230.99	67.38%	\$223.41	61.89%
35,000	\$158.50	\$268.78	69.58%	\$262.47	65.60%
40,000	\$179.00	\$306.57	71.27%	\$301.53	68.45%
45,000	\$199.50	\$344.36	72.61%	\$340.59	70.72%
50,000	\$220.00	\$382.14	73.70%	\$379.65	72.57%
75,000	\$322.50	\$571.09	77.08%	\$574.95	78.28%
100,000	\$425.00	\$760.03	78.83%	\$770.25	81.24%

# ALTERNATIVE 1

Winkleman  
Typical Bill Analysis  
General Service 5/8 x 3/4-Inch Meter

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Change	Percent Change
Average Usage	9,398	\$ 30.74	\$ 40.45	\$ 9.71	31.59%
Median Usage	6,635	\$ 25.75	\$ 33.71	\$ 7.96	30.91%

Staff Recommended

Average Usage	9,398	\$ 30.74	\$ 30.46	\$ (0.28)	-0.91%
Median Usage	6,635	\$ 25.75	\$ 25.12	\$ (0.63)	-2.45%

Present & Proposed Rates (Without Taxes)  
General Service 5/8 x 3/4-Inch Meter

Present	Company Proposed	Staff Recommended
3/4"	3/4"	3/4"
Minimum Charge \$ 14.84	\$ 19.00	\$ 14.48
1st Tier Rate 1.4458	1.9505	1.2070
1st Tier Breakover 3,000	3,000	3,000
2nd Tier Rate 1.8074	2.4381	1.9310
2nd Tier Breakover 10,000	10,000	10,000
3rd Tier Rate 2.2595	3.0477	2.8960

Consumption

Gallons	Present Bill	Company Bill and % Change	Staff Bill and % Change
-	\$14.84	\$19.00 28.03%	\$14.48 -2.43%
1,000	\$16.29	\$20.95 28.61%	\$15.69 -3.68%
2,000	\$17.73	\$22.90 29.16%	\$16.89 -4.74%
3,000	\$19.18	\$24.85 29.56%	\$18.10 -5.63%
4,000	\$20.98	\$27.29 30.08%	\$20.03 -4.53%
5,000	\$22.79	\$29.73 30.45%	\$21.96 -3.64%
6,000	\$24.60	\$32.17 30.77%	\$23.89 -2.89%
7,000	\$26.41	\$34.60 31.01%	\$25.83 -2.20%
8,000	\$28.21	\$37.04 31.30%	\$27.76 -1.60%
9,000	\$30.02	\$39.48 31.51%	\$29.69 -1.10%
10,000	\$31.83	\$41.92 31.70%	\$31.62 -0.66%
11,000	\$34.09	\$44.97 31.92%	\$34.51 1.23%
12,000	\$36.35	\$48.01 32.08%	\$37.41 2.92%
13,000	\$38.61	\$51.06 32.25%	\$40.31 4.40%
14,000	\$40.87	\$54.11 32.40%	\$43.20 5.70%
15,000	\$43.13	\$57.16 32.53%	\$46.10 6.89%
16,000	\$45.39	\$60.20 32.63%	\$48.99 7.93%
17,000	\$47.65	\$63.25 32.74%	\$51.89 8.90%
18,000	\$49.91	\$66.30 32.84%	\$54.79 9.78%
19,000	\$52.16	\$69.35 32.96%	\$57.68 10.58%
20,000	\$54.42	\$72.39 33.02%	\$60.58 11.32%
25,000	\$65.72	\$87.63 33.34%	\$75.06 14.21%
30,000	\$77.02	\$102.87 33.56%	\$89.54 16.26%
35,000	\$88.32	\$118.11 33.73%	\$104.02 17.78%
40,000	\$99.61	\$133.35 33.87%	\$118.50 18.96%
45,000	\$110.91	\$148.59 33.97%	\$132.98 19.90%
50,000	\$122.21	\$163.82 34.05%	\$147.46 20.66%
75,000	\$178.70	\$240.02 34.31%	\$219.86 23.03%
100,000	\$235.18	\$316.21 34.45%	\$292.26 24.27%

Arizona Water Company-Eastern  
Docket No. W-01445A-11-0310  
Pricing and Tier Structure

## ALTERNATIVE 1

### Superstition

Tiers	Minimum Charge	1st Tier Rate	2nd Tier Rate	3rd Tier Rate
3,000				
10,000				
22,500				
45,000				
70,000				
140,000				
220,000				
450,000				
725,000				
1,000,000				

### Staff Direct as Revised 03/22/2012

Res	Comm	Ind	Constr	Resale
\$ 18.10	\$ 18.10	\$ 24.14	\$ 18.10	\$ 18.10
1.8580				
3.4780	3.4780	2.2890	3.4780	3.4780
5.3830	5.3830	2.9370	5.3830	3.4780

### Superstition

Tiers	Minimum Charge	1st Tier Rate	2nd Tier Rate	3rd Tier Rate
3,000				
10,000				
22,500				
42,500				
68,000				
135,000				
210,000				
425,000				
685,000				
985,000				

### Staff Surrebuttal - Alternative 1

Res	Comm	Ind	Constr	Resale
\$ 17.48	\$ 17.48	\$ 24.14	\$ 17.48	\$ 17.48
1.7930				
3.6110	3.6110	2.2890	3.6110	3.6110
5.5890	5.5890	2.9370	5.5890	3.6110

### Bisbee

Tiers	Minimum Charge	1st Tier Rate	2nd Tier Rate	3rd Tier Rate
3,000				
10,000				
20,000				
40,000				
65,000				
140,000				
225,000				
450,000				
725,000				
1,000,000				

### Staff Direct as Revised 03/22/2012

Res	Comm	Ind	Constr	Resale
\$ 14.00	\$ 14.00	\$ 24.14	\$ 14.00	\$ 14.00
2.7500				
4.5000	4.5000	2.2890	4.5000	4.5000
6.0000	6.0000	2.9370	6.0000	6.0000

### Bisbee

Tiers	Minimum Charge	1st Tier Rate	2nd Tier Rate	3rd Tier Rate
3,000				
10,000				
20,000				
40,000				
65,000				
130,000				
205,000				
412,500				
660,000				
950,000				

### Staff Surrebuttal - Alternative 1

Res	Comm	Ind	Constr	Resale
\$ 13.52	\$ 13.52	\$ 24.14	\$ 13.52	\$ 13.52
2.6550				
4.8410	4.8410	2.2890	4.8410	4.8410
6.4540	6.4540	2.9370	6.4540	6.4540

### Sierra Vista

Tiers	Minimum Charge	1st Tier Rate	2nd Tier Rate	3rd Tier Rate
3,000				
10,000				
20,000				
40,000				
65,000				
140,000				
225,000				
450,000				
725,000				
1,000,000				

### Staff Direct as Revised 03/22/2012

Res	Comm	Ind	Constr	Resale
\$ 14.00	\$ 14.00	\$ 24.14	\$ 14.00	\$ 14.00
1.2500				
2.0000	2.0000	2.2890	2.0000	2.0000
2.7500	2.7500	2.9370	2.7500	2.7500

### Sierra Vista

Tiers	Minimum Charge	1st Tier Rate	2nd Tier Rate	3rd Tier Rate
3,000				
10,000				
20,000				
40,000				
65,000				
130,000				
205,000				
412,500				
660,000				
950,000				

### Staff Surrebuttal - Alternative 1

Res	Comm	Ind	Constr	Resale
\$ 13.52	\$ 13.52	\$ 24.14	\$ 13.52	\$ 13.52
1.2070				
2.1050	2.1050	2.2890	2.1050	2.1050
2.8960	2.8960	2.9370	2.8960	2.8960

Arizona Water Company-Eastern  
Docket No. W-01445A-11-0310  
Pricing and Tier Structure

## ALTERNATIVE 1

### San Manuel

Tiers	Res	Comm	Ind	Constr	Resale
3,000	\$ 22.00	\$ 22.00	\$ 24.14	\$ 22.00	\$ 22.00
10,000	3.0000				
21,000	4.0000	4.0000	2.2890	4.0000	4.0000
40,000					
62,500	6.6800	6.6800	2.9370	6.6800	4.0000
125,000					
197,500					
400,000					
645,000					
925,000					

Minimum Charge  
1st Tier Rate  
2nd Tier Rate  
3rd Tier Rate

### San Manuel

Tiers	Res	Comm	Ind	Constr	Resale
3,000	\$ 21.24	\$ 21.24	\$ 24.14	\$ 21.24	\$ 21.24
10,000	2.8960				
21,000	4.1390	4.1390	2.2890	4.1390	4.1390
39,500					
61,000	6.9120	6.9120	2.9370	6.9120	4.1390
120,000					
185,000					
375,000					
600,000					
865,000					

Minimum Charge  
1st Tier Rate  
2nd Tier Rate  
3rd Tier Rate

### Oracle

Tiers	Res	Comm	Ind	Constr	Resale
3,000	\$ 19.50	\$ 19.50	\$ 24.14	\$ 19.50	\$ 19.50
10,000	4.1000				
21,000	5.1000	5.1000	2.2890	5.1000	5.1000
40,000					
63,000	7.2500	7.2500	2.9370	7.2500	5.1000
127,500					
200,000					
400,000					
640,000					
900,000					

Minimum Charge  
1st Tier Rate  
2nd Tier Rate  
3rd Tier Rate

### Oracle

Tiers	Res	Comm	Ind	Constr	Resale
3,000	\$ 18.83	\$ 18.83	\$ 24.14	\$ 18.83	\$ 18.83
10,000	3.9580				
20,000	5.4850	5.4850	2.2890	5.4850	5.4850
35,000					
55,000	7.8120	7.8120	2.9370	7.8120	5.4950
110,000					
170,000					
345,000					
550,000					
800,000					

Minimum Charge  
1st Tier Rate  
2nd Tier Rate  
3rd Tier Rate

### SaddleBrooke Ranch

Tiers	Res	Comm	Ind	Constr	Resale
3,000	\$ 17.50	\$ 17.50	\$ 24.14	\$ 17.50	\$ 17.50
10,000	4.1000				
21,000	5.1000	5.1000	2.2890	5.1000	5.1000
40,000					
63,000	7.2500	7.2500	2.9370	7.2500	5.1000
127,500					
200,000					
400,000					
640,000					
900,000					

Minimum Charge  
1st Tier Rate  
2nd Tier Rate  
3rd Tier Rate

### SaddleBrooke Ranch

Tiers	Res	Comm	Ind	Constr	Resale
3,000	\$ 16.90	\$ 16.90	\$ 24.14	\$ 16.90	\$ 16.90
10,000	3.9580				
20,000	5.4850	5.4850	2.2890	5.4850	5.4850
35,000					
55,000	7.8120	7.8120	2.9370	7.8120	5.4950
110,000					
170,000					
345,000					
550,000					
800,000					

Minimum Charge  
1st Tier Rate  
2nd Tier Rate  
3rd Tier Rate

Arizona Water Company-Eastern  
Docket No. W-01445A-11-0310  
Pricing and Tier Structure

## ALTERNATIVE 1

### Winkleman

Tiers	Minimum Charge
3,000	1st Tier Rate
10,000	2nd Tier Rate
30,000	3rd Tier Rate
65,000	
100,000	
200,000	
300,000	
650,000	
1,000,000	
1,500,000	

### Staff Direct as Revised 03/22/2012

Res	Comm	Ind	Constr	Resale
\$ 15.00	\$ 15.00	\$ 18.66	\$ 15.00	\$ 15.00
1.2500				
2.0000	2.0000	1.7700	2.0000	2.0000
3.0000	3.0000	2.2700	3.0000	3.0000

### Winkleman

Tiers	Minimum Charge
3,000	1st Tier Rate
10,000	2nd Tier Rate
28,750	3rd Tier Rate
61,500	
100,000	
200,000	
315,000	
640,000	
1,000,000	
1,450,000	

### Staff Surrebuttal - Alternative 1

Res	Comm	Ind	Constr	Resale
\$ 14.48	\$ 14.48	\$ 18.66	\$ 14.48	\$ 14.48
1.2070				
1.9310	1.9310	1.7700	1.9310	1.9310
2.8960	2.8960	2.2700	2.8960	2.8960

## ALTERNATIVE 2

Superstition / Apache Junction - Superior - Miami  
Typical Bill Analysis  
General Service 5/8 x 3/4-Inch Meter

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Change	Percent Change
Average Usage	6,321	\$33.84	\$43.66	\$ 9.82	29.02%
Median Usage	4,594	\$28.91	\$37.42	\$ 8.51	29.44%
<b>Staff Recommended</b>					
Average Usage	6,321	\$33.84	\$34.69	\$ 0.85	2.51%
Median Usage	4,594	\$28.91	\$29.43	\$ 0.52	1.80%

Present & Proposed Rates (Without Taxes)  
General Service 5/8 x 3/4-Inch Meter

Present	Company Proposed	Staff Recommended
3/4"	3/4"	3/4"
Minimum Charge \$ 17.52	\$ 23.00	\$ 20.57
1st Tier Rate 2.2820	2.8882	1.3350
1st Tier Breakover 3,000	3,000	3,000
2nd Tier Rate 2.8527	3.6103	3.0460
2nd Tier Breakover 10,000	10,000	10,000
3rd Tier Rate 3.5663	4.5129	5.3700

Consumption Gallons	Present Bill	Company Bill and % Change		Staff Bill and % Change	
-	\$17.52	\$23.00	31.28%	\$20.57	17.41%
1,000	\$19.80	\$25.89	30.76%	\$21.91	10.66%
2,000	\$22.08	\$28.78	30.34%	\$23.24	5.25%
3,000	\$24.37	\$31.66	29.91%	\$24.58	0.86%
4,000	\$27.22	\$35.27	29.57%	\$27.62	1.47%
5,000	\$30.07	\$38.89	29.33%	\$30.67	2.00%
6,000	\$32.92	\$42.50	29.10%	\$33.71	2.40%
7,000	\$35.78	\$46.11	28.87%	\$36.76	2.74%
8,000	\$38.63	\$49.72	28.71%	\$39.81	3.05%
9,000	\$41.48	\$53.33	28.57%	\$42.85	3.30%
10,000	\$44.33	\$56.94	28.45%	\$45.90	3.54%
11,000	\$47.90	\$61.45	28.29%	\$51.27	7.04%
12,000	\$51.47	\$65.96	28.15%	\$56.64	10.04%
13,000	\$55.03	\$70.48	28.08%	\$62.01	12.68%
14,000	\$58.60	\$74.99	27.97%	\$67.38	14.98%
15,000	\$62.17	\$79.50	27.88%	\$72.75	17.02%
16,000	\$65.73	\$84.01	27.81%	\$78.12	18.85%
17,000	\$69.30	\$88.53	27.75%	\$83.49	20.48%
18,000	\$72.87	\$93.04	27.68%	\$88.86	21.94%
19,000	\$76.43	\$97.55	27.63%	\$94.23	23.29%
20,000	\$80.00	\$102.07	27.59%	\$99.60	24.50%
25,000	\$97.83	\$124.63	27.39%	\$126.45	29.25%
30,000	\$115.66	\$147.19	27.26%	\$153.30	32.54%
35,000	\$133.49	\$169.76	27.17%	\$180.15	34.95%
40,000	\$151.32	\$192.32	27.09%	\$207.00	36.80%
45,000	\$169.16	\$214.89	27.03%	\$233.85	38.24%
50,000	\$186.99	\$237.45	26.99%	\$260.70	39.42%
75,000	\$276.14	\$350.27	26.85%	\$394.95	43.03%
100,000	\$365.30	\$463.09	26.77%	\$529.20	44.87%

## ALTERNATIVE 2

Cochise-Bisbee  
Typical Bill Analysis  
General Service 5/8 x 3/4-Inch Meter

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Change	Percent Change
Average Usage	4,832	\$ 32.43	\$ 39.07	\$ 6.64	20.47%
Median Usage	3,308	\$ 25.56	\$ 32.20	\$ 6.64	25.98%

Staff Recommended

Average Usage	4,832	\$ 32.43	\$ 30.40	\$ (2.03)	-6.26%
Median Usage	3,308	\$ 25.56	\$ 23.47	\$ (2.09)	-8.18%

Present & Proposed Rates (Without Taxes)  
General Service 5/8 x 3/4-Inch Meter

Present	Company Proposed	Staff Recommended
3/4"	3/4"	3/4"
Minimum Charge \$ 13.36	\$ 20.00	\$ 15.12
1st Tier Rate 3.6039	3.6039	2.3180
1st Tier Breakover 3,000	3,000	3,000
2nd Tier Rate 4.5049	4.5049	4.5450
2nd Tier Breakover 10,000	10,000	10,000
3rd Tier Rate 5.6312	5.6311	6.2610

Consumption Gallons	Present Bill	Company Bill and % Change	Staff Bill and % Change
-	\$13.36	\$20.00 49.70%	\$15.12 13.17%
1,000	\$16.96	\$23.60 39.15%	\$17.44 2.83%
2,000	\$20.57	\$27.21 32.28%	\$19.76 -3.94%
3,000	\$24.17	\$30.81 27.47%	\$22.07 -8.69%
4,000	\$28.68	\$35.32 23.15%	\$26.62 -7.18%
5,000	\$33.18	\$39.82 20.01%	\$31.16 -6.09%
6,000	\$37.69	\$44.33 17.62%	\$35.71 -5.25%
7,000	\$42.19	\$48.83 15.74%	\$40.25 -4.60%
8,000	\$46.70	\$53.34 14.22%	\$44.80 -4.07%
9,000	\$51.20	\$57.84 12.97%	\$49.34 -3.63%
10,000	\$55.71	\$62.35 11.92%	\$53.89 -3.27%
11,000	\$61.34	\$67.98 10.82%	\$60.15 -1.94%
12,000	\$66.97	\$73.61 9.91%	\$66.41 -0.84%
13,000	\$72.60	\$79.24 9.15%	\$72.67 0.10%
14,000	\$78.23	\$84.87 8.49%	\$78.93 0.89%
15,000	\$83.86	\$90.50 7.92%	\$85.19 1.59%
16,000	\$89.49	\$96.13 7.42%	\$91.46 2.20%
17,000	\$95.12	\$101.76 6.98%	\$97.72 2.73%
18,000	\$100.76	\$107.39 6.58%	\$103.98 3.20%
19,000	\$106.39	\$113.03 6.24%	\$110.24 3.62%
20,000	\$112.02	\$118.66 5.93%	\$116.50 4.00%
25,000	\$140.17	\$146.81 4.74%	\$147.80 5.44%
30,000	\$168.33	\$174.97 3.94%	\$179.11 6.40%
35,000	\$196.49	\$203.12 3.37%	\$210.41 7.08%
40,000	\$224.64	\$231.28 2.96%	\$241.72 7.60%
45,000	\$252.80	\$259.43 2.62%	\$273.02 8.00%
50,000	\$280.95	\$287.59 2.36%	\$304.33 8.32%
75,000	\$421.73	\$428.37 1.57%	\$460.85 9.28%
100,000	\$562.51	\$569.14 1.18%	\$617.38 9.75%



## ALTERNATIVE 2

Cochise-Sierra Vista  
Typical Bill Analysis  
General Service 5/8 x 3/4-Inch Meter

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Change	Percent Change
Average Usage	7,995	\$ 25.95	\$ 35.44	\$ 9.49	36.57%
Median Usage	5,610	\$ 21.89	\$ 30.46	\$ 8.57	39.15%
Staff Recommended					
Average Usage	7,995	\$ 25.95	\$ 26.67	\$ 0.72	2.77%
Median Usage	5,610	\$ 21.89	\$ 22.44	\$ 0.55	2.51%

Present & Proposed Rates (Without Taxes)  
General Service 5/8 x 3/4-Inch Meter

Present	Company Proposed	Staff Recommended
3/4"	3/4"	3/4"
Minimum Charge \$ 13.36	\$ 20.00	\$ 14.55
1st Tier Rate 1.3626	1.6705	1.0870
1st Tier Breakover 3,000	3,000	3,000
2nd Tier Rate 1.7032	2.0881	1.7730
2nd Tier Breakover 10,000	10,000	10,000
3rd Tier Rate 2.1290	2.6102	3.0550

Consumption Gallons	Present Bill	Company Bill and % Change		Staff Bill and % Change	
-	\$13.36	\$20.00	49.70%	\$14.55	8.91%
1,000	\$14.72	\$21.67	47.21%	\$15.64	6.25%
2,000	\$16.09	\$23.34	45.06%	\$16.72	3.92%
3,000	\$17.45	\$25.01	43.32%	\$17.81	2.06%
4,000	\$19.15	\$27.10	41.51%	\$19.58	2.25%
5,000	\$20.85	\$29.19	40.00%	\$21.36	2.45%
6,000	\$22.56	\$31.28	38.65%	\$23.13	2.53%
7,000	\$24.26	\$33.36	37.51%	\$24.90	2.64%
8,000	\$25.96	\$35.45	36.56%	\$26.68	2.77%
9,000	\$27.67	\$37.54	35.67%	\$28.45	2.82%
10,000	\$29.37	\$39.63	34.93%	\$30.22	2.89%
11,000	\$31.50	\$42.24	34.10%	\$33.28	5.65%
12,000	\$33.63	\$44.85	33.36%	\$36.33	8.03%
13,000	\$35.76	\$47.46	32.72%	\$39.39	10.15%
14,000	\$37.89	\$50.07	32.15%	\$42.44	12.01%
15,000	\$40.02	\$52.68	31.63%	\$45.50	13.69%
16,000	\$42.14	\$55.29	31.21%	\$48.55	15.21%
17,000	\$44.27	\$57.90	30.79%	\$51.61	16.58%
18,000	\$46.40	\$60.51	30.41%	\$54.66	17.80%
19,000	\$48.53	\$63.12	30.06%	\$57.72	18.94%
20,000	\$50.66	\$65.73	29.75%	\$60.77	19.96%
25,000	\$61.31	\$78.78	28.49%	\$76.05	24.04%
30,000	\$71.95	\$91.83	27.63%	\$91.32	26.92%
35,000	\$82.60	\$104.88	26.97%	\$106.60	29.06%
40,000	\$93.24	\$117.93	26.48%	\$121.87	30.71%
45,000	\$103.89	\$130.98	26.08%	\$137.15	32.01%
50,000	\$114.53	\$144.04	25.77%	\$152.42	33.08%
75,000	\$167.76	\$209.29	24.76%	\$228.80	36.39%
100,000	\$220.98	\$274.54	24.24%	\$305.17	38.10%

## ALTERNATIVE 2

San Manuel  
Typical Bill Analysis  
General Service 5/8 x 3/4-Inch Meter

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Change	Percent Change
Average Usage	7,139	\$ 43.61	\$ 62.54	\$ 18.93	43.41%
Median Usage	5,426	\$ 37.82	\$ 52.18	\$ 14.36	37.97%

Staff Recommended

Average Usage	7,139	\$ 43.61	\$ 45.34	\$ 1.73	3.97%
Median Usage	5,426	\$ 37.82	\$ 38.56	\$ 0.74	1.96%

Present & Proposed Rates (Without Taxes)  
General Service 5/8 x 3/4-Inch Meter

Present	Company Proposed	Staff Recommended
3/4"	3/4"	3/4"
Minimum Charge \$ 21.52	\$ 23.00	\$ 22.21
1st Tier Rate 2.7022	4.8370	2.2500
1st Tier Breakover 3,000	3,000	3,000
2nd Tier Rate 3.3775	6.0462	3.9580
2nd Tier Breakover 10,000	10,000	10,000
3rd Tier Rate 4.2221	7.5578	7.4740

Consumption

Gallons	Present Bill	Company Bill and % Change	Staff Bill and % Change
-	\$21.52	\$23.00 6.88%	\$22.21 3.21%
1,000	\$24.22	\$27.84 14.95%	\$24.46 0.99%
2,000	\$26.92	\$32.67 21.36%	\$26.71 -0.78%
3,000	\$29.63	\$37.51 26.59%	\$28.96 -2.26%
4,000	\$33.00	\$43.56 32.00%	\$32.92 -0.24%
5,000	\$36.38	\$49.60 36.34%	\$36.88 1.37%
6,000	\$39.76	\$55.65 39.96%	\$40.83 2.69%
7,000	\$43.14	\$61.70 43.02%	\$44.79 3.82%
8,000	\$46.51	\$67.74 45.65%	\$48.75 4.82%
9,000	\$49.89	\$73.79 47.91%	\$52.71 5.65%
10,000	\$53.27	\$79.83 49.86%	\$56.67 6.38%
11,000	\$57.49	\$87.39 52.01%	\$64.14 11.57%
12,000	\$61.71	\$94.95 53.86%	\$71.61 16.04%
13,000	\$65.94	\$102.51 55.46%	\$79.09 19.94%
14,000	\$70.16	\$110.07 56.88%	\$86.56 23.38%
15,000	\$74.38	\$117.62 58.13%	\$94.04 26.43%
16,000	\$78.60	\$125.18 59.26%	\$101.51 29.15%
17,000	\$82.82	\$132.74 60.28%	\$108.98 31.59%
18,000	\$87.05	\$140.30 61.17%	\$116.46 33.79%
19,000	\$91.27	\$147.85 61.99%	\$123.93 35.78%
20,000	\$95.49	\$155.41 62.75%	\$131.41 37.62%
25,000	\$116.60	\$193.20 65.69%	\$168.78 44.75%
30,000	\$137.71	\$230.99 67.74%	\$206.15 49.70%
35,000	\$158.82	\$268.78 69.24%	\$243.52 53.33%
40,000	\$179.93	\$306.57 70.38%	\$280.89 56.11%
45,000	\$201.04	\$344.36 71.29%	\$318.26 58.31%
50,000	\$222.15	\$382.14 72.02%	\$355.63 60.09%
75,000	\$327.71	\$571.09 74.27%	\$542.48 65.54%
100,000	\$433.26	\$760.03 75.42%	\$729.33 68.34%

## ALTERNATIVE 2

Oracle  
Typical Bill Analysis  
General Service 5/8 x 3/4-Inch Meter

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Change	Percent Change
Average Usage	5,140	\$ 43.05	\$ 50.45	\$ 7.40	17.19%
Median Usage	3,958	\$ 37.00	\$ 43.30	\$ 6.30	17.03%
Staff Recommended					
Average Usage	5,140	\$ 43.05	\$ 43.52	\$ 0.47	1.09%
Median Usage	3,958	\$ 37.00	\$ 37.24	\$ 0.24	0.65%

Present & Proposed Rates (Without Taxes)  
General Service 5/8 x 3/4-Inch Meter

Consumption Gallons	Present	Company Proposed	Staff Recommended
	3/4"	3/4"	3/4"
	Minimum Charge \$ 19.83	\$ 23.00	\$ 21.00
	1st Tier Rate 4.0922	4.8370	3.7170
	1st Tier Breakover 3,000	3,000	3,000
	2nd Tier Rate 5.1151	6.0462	5.3100
	2nd Tier Breakover 10,000	10,000	10,000
	3rd Tier Rate 6.3938	7.5578	7.0010
Consumption			
	Present Bill	Company Bill and % Change	Staff Bill and % Change
-	\$19.83	\$23.00 15.99%	\$21.00 5.90%
1,000	\$23.92	\$27.84 16.39%	\$24.72 3.34%
2,000	\$28.01	\$32.67 16.64%	\$28.43 1.50%
3,000	\$32.11	\$37.51 16.82%	\$32.15 0.12%
4,000	\$37.22	\$43.56 17.03%	\$37.46 0.64%
5,000	\$42.34	\$49.60 17.15%	\$42.77 1.02%
6,000	\$47.45	\$55.65 17.28%	\$48.08 1.33%
7,000	\$52.57	\$61.70 17.37%	\$53.39 1.56%
8,000	\$57.68	\$67.74 17.44%	\$58.70 1.77%
9,000	\$62.80	\$73.79 17.50%	\$64.01 1.93%
10,000	\$67.91	\$79.83 17.55%	\$69.32 2.08%
11,000	\$74.31	\$87.39 17.60%	\$76.32 2.70%
12,000	\$80.70	\$94.95 17.66%	\$83.32 3.25%
13,000	\$87.09	\$102.51 17.71%	\$90.32 3.71%
14,000	\$93.49	\$110.07 17.73%	\$97.33 4.11%
15,000	\$99.88	\$117.62 17.76%	\$104.33 4.46%
16,000	\$106.28	\$125.18 17.78%	\$111.33 4.75%
17,000	\$112.67	\$132.74 17.81%	\$118.33 5.02%
18,000	\$119.06	\$140.30 17.84%	\$125.33 5.27%
19,000	\$125.46	\$147.85 17.85%	\$132.33 5.48%
20,000	\$131.85	\$155.41 17.87%	\$139.33 5.67%
25,000	\$163.82	\$193.20 17.93%	\$174.34 6.42%
30,000	\$195.79	\$230.99 17.98%	\$209.34 6.92%
35,000	\$227.76	\$268.78 18.01%	\$244.35 7.28%
40,000	\$259.73	\$306.57 18.03%	\$279.35 7.55%
45,000	\$291.70	\$344.36 18.05%	\$314.36 7.77%
50,000	\$323.66	\$382.14 18.07%	\$349.36 7.94%
75,000	\$483.51	\$571.09 18.11%	\$524.39 8.45%
100,000	\$643.35	\$760.03 18.14%	\$699.41 8.71%

## ALTERNATIVE 2

SaddleBrooke Ranch  
Typical Bill Analysis  
General Service 5/8 x 3/4-Inch Meter

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Change	Percent Change
Average Usage	3,405	\$ 28.96	\$ 39.96	\$ 11.00	37.98%
Median Usage	2,567	\$ 25.53	\$ 35.42	\$ 9.89	38.74%
Staff Recommended					
Average Usage	3,405	\$ 28.96	\$ 32.37	\$ 3.41	11.77%
Median Usage	2,567	\$ 25.53	\$ 28.61	\$ 3.08	12.06%

Present & Proposed Rates (Without Taxes)  
General Service 5/8 x 3/4-Inch Meter

Present	Company Proposed	Staff Recommended
3/4"	3/4"	3/4"
Minimum Charge \$ 15.00	\$ 23.00	\$ 19.07
1st Tier Rate 4.1000	4.8370	3.7170
1st Tier Breakover 3,000	3,000	3,000
2nd Tier Rate 4.1000	6.0462	5.3100
2nd Tier Breakover 10,000	10,000	10,000
3rd Tier Rate 4.1000	7.5578	7.0010

Consumption Gallons	Present Bill	Company Bill and % Change		Staff Bill and % Change	
-	\$15.00	\$23.00	53.33%	\$19.07	27.13%
1,000	\$19.10	\$27.84	45.76%	\$22.79	19.32%
2,000	\$23.20	\$32.67	40.82%	\$26.50	14.22%
3,000	\$27.30	\$37.51	37.40%	\$30.22	10.70%
4,000	\$31.40	\$43.56	38.73%	\$35.53	13.15%
5,000	\$35.50	\$49.60	39.72%	\$40.84	15.04%
6,000	\$39.60	\$55.65	40.53%	\$46.15	16.54%
7,000	\$43.70	\$61.70	41.19%	\$51.46	17.76%
8,000	\$47.80	\$67.74	41.72%	\$56.77	18.77%
9,000	\$51.90	\$73.79	42.18%	\$62.08	19.61%
10,000	\$56.00	\$79.83	42.55%	\$67.39	20.34%
11,000	\$60.10	\$87.39	45.41%	\$74.39	23.78%
12,000	\$64.20	\$94.95	47.90%	\$81.39	26.78%
13,000	\$68.30	\$102.51	50.09%	\$88.39	29.41%
14,000	\$72.40	\$110.07	52.03%	\$95.40	31.77%
15,000	\$76.50	\$117.62	53.75%	\$102.40	33.86%
16,000	\$80.60	\$125.18	55.31%	\$109.40	35.73%
17,000	\$84.70	\$132.74	56.72%	\$116.40	37.43%
18,000	\$88.80	\$140.30	58.00%	\$123.40	38.96%
19,000	\$92.90	\$147.85	59.15%	\$130.40	40.37%
20,000	\$97.00	\$155.41	60.22%	\$137.40	41.65%
25,000	\$117.50	\$193.20	64.43%	\$172.41	46.73%
30,000	\$138.00	\$230.99	67.38%	\$207.41	50.30%
35,000	\$158.50	\$268.78	69.58%	\$242.42	52.95%
40,000	\$179.00	\$306.57	71.27%	\$277.42	54.98%
45,000	\$199.50	\$344.36	72.61%	\$312.43	56.61%
50,000	\$220.00	\$382.14	73.70%	\$347.43	57.92%
75,000	\$322.50	\$571.09	77.08%	\$522.46	62.00%
100,000	\$425.00	\$760.03	78.83%	\$697.48	64.11%

## ALTERNATIVE 2

Winkleman  
Typical Bill Analysis  
General Service 5/8 x 3/4-Inch Meter

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Change	Percent Change
Average Usage	9,398	\$ 30.74	\$ 40.45	\$ 9.71	31.59%
Median Usage	6,635	\$ 25.75	\$ 33.71	\$ 7.96	30.91%

Staff Recommended

Average Usage	9,398	\$ 30.74	\$ 29.96	\$ (0.78)	-2.54%
Median Usage	6,635	\$ 25.75	\$ 25.29	\$ (0.46)	-1.79%

Present & Proposed Rates (Without Taxes)  
General Service 5/8 x 3/4-Inch Meter

Present	Company Proposed	Staff Recommended
3/4"	3/4"	3/4"
Minimum Charge \$ 14.84	\$ 19.00	\$ 15.93
1st Tier Rate 1.4458	1.9505	1.0720
1st Tier Breakover 3,000	3,000	3,000
2nd Tier Rate 1.8074	2.4381	1.6900
2nd Tier Breakover 10,000	10,000	10,000
3rd Tier Rate 2.2595	3.0477	2.8970

Consumption

Gallons	Present Bill	Company Bill and % Change	Staff Bill and % Change
-	\$14.84	\$19.00 28.03%	\$15.93 7.35%
1,000	\$16.29	\$20.95 28.61%	\$17.00 4.36%
2,000	\$17.73	\$22.90 29.16%	\$18.07 1.92%
3,000	\$19.18	\$24.85 29.56%	\$19.15 -0.16%
4,000	\$20.98	\$27.29 30.08%	\$20.84 -0.67%
5,000	\$22.79	\$29.73 30.45%	\$22.53 -1.14%
6,000	\$24.60	\$32.17 30.77%	\$24.22 -1.54%
7,000	\$26.41	\$34.60 31.01%	\$25.91 -1.89%
8,000	\$28.21	\$37.04 31.30%	\$27.60 -2.16%
9,000	\$30.02	\$39.48 31.51%	\$29.29 -2.43%
10,000	\$31.83	\$41.92 31.70%	\$30.98 -2.67%
11,000	\$34.09	\$44.97 31.92%	\$33.87 -0.65%
12,000	\$36.35	\$48.01 32.08%	\$36.77 1.16%
13,000	\$38.61	\$51.06 32.25%	\$39.67 2.75%
14,000	\$40.87	\$54.11 32.40%	\$42.56 4.14%
15,000	\$43.13	\$57.16 32.53%	\$45.46 5.40%
16,000	\$45.39	\$60.20 32.63%	\$48.36 6.54%
17,000	\$47.65	\$63.25 32.74%	\$51.26 7.58%
18,000	\$49.91	\$66.30 32.84%	\$54.15 8.50%
19,000	\$52.16	\$69.35 32.96%	\$57.05 9.38%
20,000	\$54.42	\$72.39 33.02%	\$59.95 10.16%
25,000	\$65.72	\$87.63 33.34%	\$74.43 13.25%
30,000	\$77.02	\$102.87 33.56%	\$88.92 15.45%
35,000	\$88.32	\$118.11 33.73%	\$103.40 17.07%
40,000	\$99.61	\$133.35 33.87%	\$117.89 18.35%
45,000	\$110.91	\$148.59 33.97%	\$132.37 19.35%
50,000	\$122.21	\$163.82 34.05%	\$146.86 20.17%
75,000	\$178.70	\$240.02 34.31%	\$219.28 22.71%
100,000	\$235.18	\$316.21 34.45%	\$291.71 24.04%

Arizona Water Company-Eastern  
Docket No. W-01445A-11-0310  
Pricing and Tier Structure

## ALTERNATIVE 2

### Superstition

Tiers	Minimum Charge
3,000	
10,000	
22,500	
45,000	
70,000	
140,000	
220,000	
450,000	
725,000	
1,000,000	

### Staff Direct as Revised 03/22/2012

Res	Comm	Ind	Constr	Resale
\$ 18.10	\$ 18.10	\$ 24.14	\$ 18.10	\$ 18.10
1.8580				
3.4780	3.4780	2.2890	3.4780	3.4780
5.3830	5.3830	2.9370	5.3830	3.4780

### Superstition

Tiers	Minimum Charge
3,000	
10,000	
22,500	
44,500	
70,000	
140,000	
217,500	
435,000	
699,999	
1,000,000	

### Staff Surrebuttal - Alternative 2

Res	Comm	Ind	Constr	Resale
\$ 20.57	\$ 20.57	\$ 24.14	\$ 20.57	\$ 20.57
1.3350				
3.0460	3.0460	2.2890	3.0460	3.0460
5.3700	5.3700	2.9370	5.3700	3.0470

### Bisbee

Tiers	Minimum Charge
3,000	
10,000	
20,000	
40,000	
65,000	
140,000	
225,000	
450,000	
725,000	
1,000,000	

### Staff Direct as Revised 03/22/2012

Res	Comm	Ind	Constr	Resale
\$ 14.00	\$ 14.00	\$ 24.14	\$ 14.00	\$ 14.00
2.7500				
4.5000	4.5000	2.2890	4.5000	4.5000
6.0000	6.0000	2.9370	6.0000	6.0000

### Bisbee

Tiers	Minimum Charge
3,000	
10,000	
20,000	
40,000	
65,000	
138,750	
222,500	
450,000	
725,000	
1,000,000	

### Staff Surrebuttal - Alternative 2

Res	Comm	Ind	Constr	Resale
\$ 15.12	\$ 15.12	\$ 24.14	\$ 15.12	\$ 15.12
2.3180				
4.5450	4.5450	2.2890	4.5450	4.5450
6.2610	6.2610	2.9370	6.2610	6.2610

### Sierra Vista

Tiers	Minimum Charge
3,000	
10,000	
20,000	
40,000	
65,000	
140,000	
225,000	
450,000	
725,000	
1,000,000	

### Staff Direct as Revised 03/22/2012

Res	Comm	Ind	Constr	Resale
\$ 14.00	\$ 14.00	\$ 24.14	\$ 14.00	\$ 14.00
1.2500				
2.0000	2.0000	2.2890	2.0000	2.0000
2.7500	2.7500	2.9370	2.7500	2.7500

### Sierra Vista

Tiers	Minimum Charge
3,000	
10,000	
20,000	
40,000	
65,000	
138,750	
222,500	
450,000	
725,000	
1,000,000	

### Staff Surrebuttal - Alternative 2

Res	Comm	Ind	Constr	Resale
\$ 14.55	\$ 14.55	\$ 24.14	\$ 14.55	\$ 14.55
1.0870				
1.7730	1.7730	2.2890	1.7730	1.7730
3.0550	3.0550	2.9370	3.0550	3.0550

Arizona Water Company-Eastern  
Docket No. W-01445A-11-0310  
Pricing and Tier Structure

## ALTERNATIVE 2

### San Manuel

Tiers	Res	Comm	Ind	Constr	Resale
3,000	\$ 22.00	\$ 22.00	\$ 24.14	\$ 22.00	\$ 22.00
10,000	3.0000				
21,000	4.0000	4.0000	2.2890	4.0000	4.0000
40,000					
62,500	6.6800	6.6800	2.9370	6.6800	4.0000
125,000					
197,500					
400,000					
645,000					
925,000					

### San Manuel

Tiers	Res	Comm	Ind	Constr	Resale
3,000	\$ 22.21	\$ 22.21	\$ 24.14	\$ 22.21	\$ 22.21
10,000	2.2500				
21,000	3.9580	3.9580	2.2890	3.9580	3.9580
40,000					
62,500	7.4740	7.4740	2.9370	7.4740	3.9590
125,000					
197,500					
400,000					
645,000					
925,000					

### Oracle

Tiers	Res	Comm	Ind	Constr	Resale
3,000	\$ 19.50	\$ 19.50	\$ 24.14	\$ 19.50	\$ 19.50
10,000	4.1000				
21,000	5.1000	5.1000	2.2890	5.1000	5.1000
40,000					
63,000	7.2500	7.2500	2.9370	7.2500	5.1000
127,500					
200,000					
400,000					
640,000					
900,000					

### Oracle

Tiers	Res	Comm	Ind	Constr	Resale
3,000	\$ 21.00	\$ 21.00	\$ 24.14	\$ 21.00	\$ 21.00
10,000	3.7170				
21,000	5.3100	5.3100	2.2890	5.3100	5.3100
40,000					
63,000	7.0010	7.0010	2.9370	7.0010	5.3110
127,500					
200,000					
400,000					
640,000					
900,000					

### SaddleBrooke Ranch

Tiers	Res	Comm	Ind	Constr	Resale
3,000	\$ 17.50	\$ 17.50	\$ 24.14	\$ 17.50	\$ 17.50
10,000	4.1000				
21,000	5.1000	5.1000	2.2890	5.1000	5.1000
40,000					
63,000	7.2500	7.2500	2.9370	7.2500	5.1000
127,500					
200,000					
400,000					
640,000					
900,000					

### SaddleBrooke Ranch

Tiers	Res	Comm	Ind	Constr	Resale
3,000	\$ 19.07	\$ 19.07	\$ 24.14	\$ 19.07	\$ 19.07
10,000	3.7170				
21,000	5.3100	5.3100	2.2890	5.3100	5.3100
40,000					
63,000	7.0010	7.0010	2.9370	7.0010	5.3110
127,500					
200,000					
400,000					
640,000					
900,000					

Arizona Water Company-Eastern  
Docket No. W-01445A-11-0310  
Pricing and Tier Structure

## ALTERNATIVE 2

### Winkleman

Tiers	Minimum Charge
3,000	1st Tier Rate
10,000	2nd Tier Rate
30,000	3rd Tier Rate
65,000	
100,000	
200,000	
300,000	
650,000	
1,000,000	
1,500,000	

### Staff Direct as Revised 03/22/2012

Res	Comm	Ind	Constr	Resale
\$ 15.00	\$ 15.00	\$ 18.66	\$ 15.00	\$ 15.00
1.2500				
2.0000	2.0000	1.7700	2.0000	2.0000
3.0000	3.0000	2.2700	3.0000	3.0000

### Winkleman

Tiers	Minimum Charge
3,000	1st Tier Rate
10,000	2nd Tier Rate
28,750	3rd Tier Rate
61,500	
100,000	
200,000	
315,000	
640,000	
1,000,000	
1,450,000	

### Staff Surrebuttal - Alternative 2

Res	Comm	Ind	Constr	Resale
\$ 15.93	\$ 15.93	\$ 18.66	\$ 15.93	\$ 15.93
1.0720				
1.6900	1.6900	1.7700	1.6900	1.6900
2.8970	2.8970	2.2700	2.8970	2.8970